DOCKET

SUPREME COURT
OF THE UNITED STATES

No. 10-6
Title: Global-Tech Appliances, Inc., et al., Petitioners
v.
SEB S.A.
Docketed: June 29, 2010
Lower Ct.: United States Court of Appeals for the Federal Circuit
Case Nos.: (2009-1099, 2009-1108, 2009-1119)
Decision Date: February 5, 2010
Rehearing Denied: March 25, 2010
Questions Presented

Date	Proceedings and Orders
Jun 23 2010	Petition for a writ of certiorari filed. (Response due July 29, 2010)
Jul 29 2010	Brief of respondent SEB S.A. in opposition filed.
Jul 29 2010	Brief amici curiae of 26 Law, Economics, and Business Professors filed.
Aug 11 2010	DISTRIBUTED for Conference of September 27, 2010
Oct 4 2010	DISTRIBUTED for Conference of October 8, 2010
Oct 12 2010	Petition GRANTED.
Nov 10 2010	Consent to the filing of amicus curiae briefs, in support of either party or of neither party, received from counsel for the respondent.
Nov 15 2010	Consent to the filing of amicus curiae briefs, in support of either party or of neither party, received from counsel for the petitioners.
Nov 23 2010	Extension of time to file the joint appendix and petitioners' brief on the merits to and including November 29, 2010.
Nov 23 2010	The time to file respondent's brief on the merits is extended to and including December 30, 2010.
Nov 29 2010	Joint appendix filed. (Statement of costs filed.)
Nov 29 2010	Brief of petitioners Global-Tech Appliances, Inc., et al. filed.
Nov 29 2010	Supplemental appendix of Global-Tech Appliances, Inc., et al. filed.
Dec 2 2010	Brief amicus curiae of Newegg, Inc. filed.
Dec 6 2010	Brief amici curiae of Yahoo! Inc., et al. filed.
Dec 6 2010	Brief amicus curiae of Business Software Alliance filed.
Dec 6 2010	Brief amici curiae of Comcast Corporation, et al. filed.
Dec 6 2010	Brief amicus curiae of Software Freedom Law Center filed.
Dec 6 2010	Brief amici curiae of Motion Picture Association of America and Recording Industry in support of neither party filed.
Dec 6 2010	Brief amici curiae of Cisco Systems, Inc., et al. filed.
Dec 6 2010	Brief amicus curiae of Google Inc. filed.
Dec 6 2010	Brief amicus curiae of Intellectual Property Owners Association in support of neither party filed.
Dec 6 2010	Brief amici curiae of The Clearing House Association, et al. filed.
Dec 6 2010	Brief amici curiae of 41 Law, Economics, and Business Professors filed.
Dec 6 2010	Brief amicus curiae of Federal Circuit Bar Association in support of neither party filed.
Dec 23 2010	SET FOR ARGUMENT ON Wednesday, February 23, 2011.
Dec 30 2010	Brief of respondent SEB S.A. filed. (Distributed)
Jan 3 2011	CIRCULATED.
Jan 6 2011	Brief amici curiae of Law Professors filed. (Distributed)
Jan 6 2011	Brief amici curiae of Hoffmann-La Roche Inc., et al. filed. (Distributed)
Jan 6 2011	Brief amicus curiae of William Mitchell College of Law Intellectual Property

	Institute filed. (Distributed)
Jan 6 2011	Brief amicus curiae of American Intellectual Property Law Association filed. (Distributed)
Jan 20 2011	Record received from U.S.C.A. for Federal Circuit. (1 box)
Jan 31 2011	Reply of petitioners Global Tech Appliances, Inc., et al. filed. (Distributed)
Feb 11 2011	Record received from U.S.D.C. for Southern District of New York (White Plains). (4 boxes) There are sealed documents in this record.
Feb 23 2011	Argued. For petitioners: William Dunnegan, New York, N.Y. For respondent: R. Ted Cruz, Houston, Tex.

PETITION FOR WRIT OF CERTIORARI

Supreme Court, U.S.
FILED

JUN 23 2010

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No. 09- 10-6

IN THE

Supreme Court of the United States

GLOBAL-TECH APPLIANCES INC. and
PENTALPHA ENTERPRISES, LTD.,

Petitioners,

v.

SEB S.A.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the legal standard for the state of mind element of a claim for actively inducing infringement under 35 U.S.C. § 271(b) is "deliberate indifference of a known risk" that an infringement may occur, as the Court of Appeals for the Federal Circuit held, or "purposeful, culpable expression and conduct" to encourage an infringement, as this Court taught in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937, 125 S. Ct. 2764, 2780, 162 L. Ed. 2d 781, 801 (2005)?

PARTIES TO THE PROCEEDING

The petitioners here, and defendants-appellants in the Federal Circuit, are Global-Tech Appliances Inc. (now "Global-Tech Advanced Innovations Inc."), and Pentalpha Enterprises, Ltd. (now "Pentalpha Medical, Ltd.") (collectively "Pentalpha").

The respondent here, and plaintiff-appellee in the Federal Circuit, is SEB S.A ("SEB").

CORPORATE DISCLOSURE STATEMENT

Pentalpha Enterprises, Ltd. is a wholly-owned subsidiary of Global-Tech Appliances Inc., a publicly traded corporation, with its principle place of business in Hong Kong.

SEB is a publicly traded corporation, with its principle place of business in France.

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PETITION FOR A WRIT OF CERTIORARI

Pentalpha respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit, insofar as it found Pentalpha liable for actively inducing infringement under 35 U.S.C. § 271(b), based upon Pentalpha's sales of a product FOB Hong Kong or China with "deliberate indifference of a known risk" that an infringement may occur.

OPINIONS BELOW

The opinion of the Federal Circuit is reported at 594 F.3d 1360, and a copy is annexed as Appendix A.

The memorandum and order of the United States District Court for the Southern District of New York is not officially reported, but is available at 2006 U.S. Dist. LEXIS 80394, and a copy is annexed as Appendix B.

The order denying the petition of Pentalpha for rehearing en banc is not officially reported, but is available at 2010 U.S. App. LEXIS 7937, and a copy is annexed as Appendix C.

JURISDICTION

The Federal Circuit entered its judgment on February 5, 2010, and denied Pentalpha's petition for rehearing en banc by an order entered on March 25, 2010. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The relevant portions of the Patent Act, 35 U.S.C. § 271(a), (b), and (c) provide:

> "§ 271 Infringement of patent
>
> (a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention within the United States, or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.
>
> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> (c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination, or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial non-infringing use, shall be liable as a contributory infringer."

STATEMENT OF THE CASE

A. Factual Background

SEB is engaged in the business of manufacturing household appliances. It owns United States Patent No. 4,995,312 (the "Patent"), for a specific type of deep fryer. SEB markets its products in the United States through an indirect subsidiary, T-Fal Corporation.

Pentalpha is also engaged in the business of manufacturing household appliances. In 1997, Pentalpha developed a deep fryer by purchasing and studying various deep fryers on the market in Hong Kong, including a SEB deep fryer that lacked United States patent markings. Before selling its deep fryer, Pentalpha contacted a New York patent attorney for an opinion as to whether its deep fryer would infringe any United States patent. Pentalpha did not disclose to the attorney which products it had used to develop its deep fryer. The attorney then provided a written opinion that the deep fryer did not infringe any United States patent. But, the patent search the attorney performed failed to identify SEB's Patent. Pentalpha in August 1997 began selling deep fryers to Sunbeam Corporation ("Sunbeam"), FOB Hong Kong or China, and Sunbeam imported them into the United States. Pentalpha later sold essentially the same deep fryer FOB Hong Kong or China to two additional United States retailers, Montgomery Ward & Co., Inc. ("Montgomery Ward"), and Fingerhut, Inc., which imported them into the United States.

In March 1998, SEB sued Sunbeam in the District of New Jersey for infringing the Patent. As a result of that action, Pentalpha on or about April 9, 1998 learned—for the first time—of the existence of the SEB Patent. On July 10, 1998, SEB sued Pentalpha in the New Jersey action. In July 1999, Sunbeam paid SEB $2,000,000 to settle that action. Contemporaneously, the New Jersey district court dismissed SEB's claims against Pentalpha for lack of personal jurisdiction.

B. The Proceedings in the District Court

On August 27, 1999, SEB commenced an action for patent infringement against Pentalpha and one of its customers, Montgomery Ward, in the Southern District of New York. On December 16, 1999, the district court granted a preliminary injunction enjoining Pentalpha from selling its deep fryers. After receiving a non-infringement opinion from new patent counsel, Pentalpha began selling a redesigned deep fryer. On SEB's motion, the district court extended its preliminary injunction to that redesigned deep fryer.

After discovery and pretrial motions, the district court tried the action beginning on April 17, 2006. At the close of evidence on April 20, 2006, Pentalpha moved for judgment as a matter of law on certain claims. Specifically, Pentalpha argued that it could not be liable for actively inducing infringement under 35 U.S.C. § 271(b) for its sales before April 9, 1998 because the parties agreed that Pentalpha had no knowledge of the Patent before that date. The district court denied Pentalpha's motion. In its charge, the district court instructed the jury that it could find Pentalpha liable

for inducing infringement if Pentalpha "knew or should have known" that its actions would induce actual infringement. Pentalpha objected to that charge. On April 21, 2006, the jury found as follows.

i. Pentalpha had directly infringed and induced infringement for both deep fryers.

ii. SEB was entitled to a reasonable royalty of $4,650,000 on Pentalpha's sales, although the jury did not allocate any amount to either theory of liability.

iii. Pentalpha's infringement was willful, but did not specify any product or time period for that finding.

Post-trial motions followed. By memorandum and order dated October 9, 2007, annexed as Appendix B, the district court denied all of Pentalpha's post-trial motions, except it reduced the verdict by $2,000,000, the amount Sunbeam had paid SEB in the related suit over the deep fryers. The district court also awarded SEB enhanced damages of $2,650,000, attorney's fees of $932,123, and prejudgment interest at the prime rate. Pentalpha moved to reargue because the district court had failed to consider *In Re Seagate*, 497 F.3d 1360 (Fed. Cir. 2007). The district court granted Pentalpha's motion to reargue and vacated its award of enhanced damages and attorneys' fees. It entered judgment on October 2, 2008 in the amount of $4,878,341.

Pentalpha filed a notice of appeal on October 30, 2008.

C. The Proceedings in the Federal Circuit

The Court of Appeals for the Federal Circuit exercised appellate jurisdiction pursuant to 28 U.S.C. § 1295.

Pentalpha argued, among other things, that the district court erroneously charged the jury concerning the elements of a claim for actively inducing infringement because the Federal Circuit had held, en banc, that knowledge of a patent was a necessary element of a claim for actively inducing infringement, *DSU Medical Corp. v. JMS Co. Ltd.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc), and because Pentalpha, the parties agreed, had no knowledge of the Patent before April 9, 1998, seven months after Pentalpha began its sales. In an opinion entered February 5, 2010, annexed as Appendix A, the Federal Circuit held that, because of ambiguous jury instructions, it could not determine whether the jury had found damages based on inducing infringement alone, direct infringement alone, or both. Accordingly, the Federal Circuit held that, to affirm, it had to uphold the judgment based upon both the theories of direct infringement and actively inducing infringement.

The Federal Circuit nevertheless affirmed the district court's judgment that Pentalpha was liable for inducing infringement under 35 U.S.C. § 271(b). The Federal Circuit reasoned that Pentalpha's "deliberate indifference" as to whether its product might infringe a patent satisfied the state of mind element for actively inducing infringement under 35 U.S.C. § 271(b).

On March 2, 2010, Pentalpha filed a petition for rehearing en banc. Two bar associations submitted a joint brief in support of Pentalpha's petition. By order entered March 25, 1010, annexed as Appendix C, and without modifying the decision, the Federal Circuit denied the petition.

REASON FOR GRANTING THE PETITION

I. THE COURT SHOULD DETERMINE WHETHER THE SALE OF A PRODUCT WITH "DELIBERATE INDIFFERENCE OF A KNOWN RISK" THAT AN INFRINGEMENT MAY OCCUR SATISFIES THE INTENT ELEMENT FOR ACTIVELY INDUCING INFRINGEMENT UNDER 35 U.S.C. § 271(b)

A. THE FEDERAL CIRCUIT'S "DELIBERATE INDIFFERENCE" STANDARD FOR ACTIVELY INDUCING INFRINGMENT UNDER 35 U.S.C. § 271(b) CONFLICTS WITH THE TEACHING OF THIS COURT IN *MGM STUDIOS, INC. v. GROKSTER, LTD.*

In *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 125 S. Ct. 2764, 162 L. Ed. 2d 781 (2005), this Court taught that the state of mind element for actively inducing patent infringement under 35 U.S.C. § 271(b) requires "affirmative intent that the product be used to infringe." *Grokster*, 545 U.S. at 936. *Grokster* was a copyright case in which this Court considered whether a distributor of software with significant non-infringing uses should be secondarily liable for copyright infringement if it intentionally designed and marketed

its product for an infringing purpose. *See Id.* at 941. This Court applied the patent law rule for inducing infringement to the copyright law, to allow secondary copyright liability premised on Grokster's intentional acts to encourage others to infringe. *Id.* at 936-37. In doing so, this Court articulated its view of the level of culpable conduct 35 U.S.C. § 271(b) requires:

> "The rule on inducement of infringement as developed in the early cases is no different today. Evidence of 'active steps . . . taken to encourage direct infringement' . . . show an **affirmative intent that the product be used to infringe**, and a showing that infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use."

Id. at 936 (citations omitted) (emphasis added). Thus, this Court in *Grokster* taught that actively inducing patent infringement requires more than a disregard of the risk that a patent infringement might occur.

Furthermore, in applying its interpretation of 35 U.S.C. § 271(b) to the copyright law, this Court held that "mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability . . . The inducement rule, instead premises liability on purposeful, culpable expression and conduct." *Id.* at 937.

Here, the Federal Circuit adopted a standard for actively inducing patent infringement under 35 U.S.C.

§ 271(b) that conflicts with that teaching of this Court. The *SEB* standard bases liability on conduct manifesting "deliberate indifference of a known risk" that a patent may exist. *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d. 1360, 1377 (Fed. Cir. 2010) ("as courts have observed in a variety of settings, the standard of deliberate indifference of a known risk is not different from actual knowledge.") (citations omitted). The *SEB* standard does not require "affirmative intent that the product be used to infringe." *Grokster*, 545 U.S. at 936. Instead, the *SEB* standard allows "mere knowledge of infringing potential" to serve as the basis for liability. *Id.* at 937.

The Federal Circuit's "deliberate indifference" standard does not require recklessness. This Court has previously held that "[t]he civil law generally calls a person reckless who acts or (if the person has a duty to act) fails to act in the face of an unjustifiably high risk of harm that is either known or so obvious that it should be known." *Farmer v. Brennan*, 511 U.S. 825, 836, 114 S. Ct. 1970, 1979, 128 L. Ed. 2d 811, 825 (1994) (citing, Prosser and Keeton § 34, at 213-14; Restatement (Second) of Torts § 500 (1965)). Furthermore, "recklessness requires 'a known or obvious risk that was so great as to make it highly probable that harm would follow.'" *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 69, 127 S. Ct. 2201, 2215, 167 L. Ed. 2d 1045, 1065 (2007) (quoting Prosser and Keeton § 34, at 213). The Federal Circuit conspicuously avoided articulating any standard concerning the severity of the risk of infringement necessary to find liability.

Similarly, the Federal Circuit's "deliberate indifference" standard does not require negligence. The Federal Circuit stated "'deliberate indifference' is not necessarily a 'should have known' standard. The latter implies a solely objective test, whereas the former may require a subjective determination that the defendant knew of and disregarded the overt risk that an element of the offense existed." *SEB*, 594 F.3d at 1376 (citations omitted).

In any event, the Federal Circuit's "deliberate indifference" standard involves a level of culpability lower than negligence. The district court charged the jury under a "knew or should have known" negligence standard. Transcript of Record at 987, *SEB S.A. v. Montgomery Ward & Co., Inc.*, 2006 U.S. Dist. LEXIS 80394 (S.D.N.Y. Oct. 2007). If the Federal Circuit intended for "deliberate indifference" to be a standard higher than negligence, like recklessness, it would have reversed and remanded for a new trial under that standard, rather than sit as jury to determine the question of whether that higher standard was met. *Carolina Power & Light Co. v. United States*, 573 F. 3d 1271, 1276 (Fed. Cir. 2009) (even "a matter that can be tested by fairly simple arithmetic . . . is nonetheless a factual issue properly within the purview of the trial court"); *Golden Bridge Tech., Inc. v. Nokia, Inc.*, 527 F.3d 1318, 1323 (Fed. Cir. 2008) ("Appellate courts review district court judgments; we do not find facts."); *First Interstate Bank of Billings v. United States*, 61 F. 3d 1477, 1479 (Fed. Cir. 1993) ("Fact-finding by the appellate court is simply not permitted"). Accordingly, the new "deliberate indifference" standard requires less culpability than negligence.

The Federal Circuit attempted to reconcile its new "deliberate indifference" standard with the standard set forth in *Grokster*, but failed. The Federal Circuit cited *Farmer v. Brennan*, 511 U.S. 825, an Eighth Amendment case. In *Farmer*, this Court annunciated a subjective "deliberate indifference" standard under which liability can attach when the accused "knows of and disregards an excessive risk." *Id.* at 837. *Farmer*, however, equated its formulation of "deliberate indifference" to "subjective recklessness as is used in criminal law." *See, Farmer*, 511 U.S. at 839. In applying the "deliberate indifference" standard, the Federal Circuit did not import the standard of "subjective recklessness as it is used in criminal law," but imported a standard lower than negligence.

Accordingly, because the Federal Circuit has articulated a standard for the state of mind element for actively inducing infringement that is inconsistent with this Court's teaching in *Grokster*, this Court should address that inconsistency.

B. THE FEDERAL CIRCUIT HAS NOT ADEQUATELY ARTICULATED AN APPROPRIATE STANDARD FOR ACTIVELY INDUCING INFRINGEMENT UNDER 35 U.S.C. § 271(b)

Putting aside the inconsistency between the teaching of *Grokster* and the decision of the Federal Circuit, the Federal Circuit has failed to articulate a standard for the state of mind element of actively inducing infringement under 35 U.S.C. § 271(b) that lower courts can consistently apply.

Under the "deliberate indifference" standard, a jury could find that the accused inducer "deliberately disregarded a known risk," *SEB*, 594 F.3d at 1377, that an infringement may occur in virtually any situation. For example:

- If the accused inducer did not conduct a patent search, the jury could find that the accused inducer "deliberately disregarded a known risk" that a patent search would have revealed an applicable patent.

- If the accused inducer conducted a patent search, but did not obtain an opinion of counsel, the jury could find that the accused inducer "deliberately disregarded a known risk" that an opinion of counsel would have identified a problem with the search, and revealed the applicable patent.

- If the accused inducer retained counsel to provide a right to use opinion, the jury could find that the accused inducer "deliberately disregarded a known risk," usually disclosed in opinions of counsel, that a jury could reach a different conclusion on the issue of infringement.

None of these fact patterns differ materially from the fact pattern of the present case, where Pentalpha relied upon a legal opinion based upon a faulty patent search.

SEB's confusing treatment of the state of mind element for actively inducing infringement did not

develop in a vacuum. Rather, it represents the culmination of at least three attempts by the Federal Circuit to articulate an appropriate standard for the state of mind element for that claim.

In *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990), the Federal Circuit articulated a standard suggesting that the patentee need only prove an intent to cause the acts that constituted the infringement, stating:

> "On its face, § 271(b) is much broader than § 271(c) and certainly does not speak of any intent requirement to prove active inducement. However, in view of the very definition of 'active inducement' in pre-1952 case law and the fact that § 271(b) was intended as merely a codification of pre-1952 law, we are of the opinion that proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement."

In *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 543, 553 (Fed. Cir. 1990), the Federal Circuit announced a conflicting standard that required not only knowledge of the acts giving rise to infringement but knowledge of the infringement itself, stating:

> "It must be established that the defendant possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement."

In *DSU Medical Corp. v. JMS Co. Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006) (en banc), the Federal Circuit, recognized the inconsistency between *Hewlett-Packard* and *Manville*, and, given this Court's decision in *Grokster*, chose to follow *Manville*. The Federal Circuit stated, "*Grokster*, thus, validates this court's articulation of the state of mind requirement for inducement. In *Manville*, this court held that the 'alleged infringer must be shown . . . to have *knowingly* induced infringement' not merely knowingly induced the *acts* that constitute infringement," *DSU*, 471 F.3d at 1306 (quoting *Manville*, 917 F.2d at 544). The Federal Circuit specifically articulated its new standard as follows:

> "[T]he plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements. The requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent."

DSU, 471 F.3d at 1306 (quoting *Manville*, 971 F.3d at 554) (citation omitted).

The application of *Manville* and *DSU* in *SEB* demonstrated, and deepened, the profound confusion in the law concerning the state of mind element for inducing infringement. The Federal Circuit acknowledged that "inducement requires a showing of 'specific intent to encourage another's infringement.'" *SEB, S.A.*, 594 F.3d at 1376 (citation omitted). But, it

then suggested that specific intent is not a high standard, stating: "As other courts have observed, 'specific intent' in the civil context is not so narrow as to allow an accused wrongdoer to actively disregard a known risk that an element of an offense exists." *Id.* at 1376 (citations omitted). The Federal Circuit therefore held that the mere presence of a risk that infringement could occur would constitute specific intent to infringe.

SEB created additional uncertainty by discarding *DSU's* express requirement that the accused must have knowledge of the patent. *SEB's* new standard allowed Pentalpha's "deliberate indifference of a known risk" that SEB held a protective patent to be treated as functionally equivalent to knowledge of the patent. *Id.* at 1377. Under this standard, a trier of fact could find "deliberate indifference" and, thus liability, in virtually any case.

Adding further to the uncertainty, *SEB* noted that "[t]his opinion does not purport to establish the outer limits of the type of knowledge needed for inducement." *Id.* at 1378. It suggested that "a patentee may perhaps only need to show, as *Insituform* [*Technologies, Inc. v. Cat Contracting, Inc.*, 161 F.3d 688 (Fed. Cir. 1998)] suggests, constructive knowledge with persuasive evidence of disregard for clear patent markings, similar to the constructive notice requirement in § 287(a)." *SEB*, 594 F.3d at 1378. Thus, the level of culpability to prove inducing infringement under *SEB* may be so elastic that neither actual knowledge nor even "deliberate indifference" is required to find liability.

The result of *SEB* is utter confusion as to the standard for the state of mind element for the claim of actively inducing infringement. In an *Amicus Curiae* brief submitted in support of Pentalpha's petition for rehearing en banc, the American Intellectual Property Law Association ("AIPLA"), a bar association of over 16,000 members who share an interest in intellectual property, and the Federal Circuit Bar Association ("FCBA"), a bar association of over 2,600 members who practice before the Federal Circuit stated:

> "AIPLA and the FCBA are of the view that the reasoning expressed by the panel in *SEB S.A. v. Montgomery Ward & Co. Inc.*, Nos. 2009-1099, 2009-1108, 2009-1119, 2010 WL 398118 (Fed. Cir. Feb. 5, 2010), is symptomatic of the lack of clarity in the law of induced patent infringement. **In the wake of *SEB*, the law regarding the culpability level required to establish induced patent infringement is as confused as ever.** A clearer formulation of the law would allow practitioners and those in the industry to understand better the boundary between allowed and wrongful conduct." (Emphasis added.)

Brief for the American Intellectual Property Lawyers Association and the Federal Circuit Bar Association as *Amici Curiae* Supporting Appellants' Petition for Rehearing En Banc at 2, *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d. 1360 (Fed. Cir. 2010).

Thus, for 20 years, the Federal Circuit has struggled to articulate an appropriate standard for inducing infringement. It has failed to do so. It is therefore appropriate for this Court to address this issue.

C. THE "DELIBERATE INDIFFERENCE" STANDARD OF SEB MAY PROFOUNDLY IMPACT INTERNATIONAL AND DOMESTIC COMMERCE

The Federal Circuit has, subject to limited exceptions, exclusive jurisdiction over appeals in patent infringement actions. 28 U.S.C. §1295; *The Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826, 122 S. Ct. 1889, 152 L. Ed. 2d 13 (2002). *SEB* is therefore, for all practical purposes, controlling precedent in the entire United States, not simply a regional circuit.

If the "deliberate indifference" standard of *SEB* remains the law, foreign sellers of goods imported into the United States will face increased costs of doing business. A foreign seller could no longer rely upon its lack of knowledge of a competitor's patent as a basis to sell its product. To avoid liability, it must, at a minimum, secure a written legal opinion from patent counsel that its product does not infringe. If the foreign seller concludes that the cost of compliance, coupled with the risk of an error in the opinion (as in this case), outweighs its potential profit, the foreign seller may decline to sell its legitimate products for the United States market, resulting in the elimination of a competitor and, if it occurs on a large enough scale, the elimination of competition in the United States market.

At the very least, foreign sellers will pass on the cost of compliance to American consumers and businesses in the form of higher prices. In 2009, the United States imported over $1.5 trillion worth of merchandise. Trade Stats Express, International Trade Administration, http://tse.export.gov/NTDChartDisplay.aspx?UniqueURL=aox4m345pk4v0145mgp3fo55-2010-6-18-10-37-37 (last visited June 22, 2010). While this broad inducement rule will not impact all merchandise imported to the United States, even a trivial increase in the percentage of commerce affected could have a dramatic impact upon the costs United States consumers and businesses are asked to absorb.

Domestic sellers of component parts of finished products would also face increased costs of doing business. A seller of a component of a product would ordinarily evaluate its potential liability under a theory of contributory infringement pursuant to 35 U.S.C. § 271(c). Under 35 U.S.C. § 271(c) a component seller "knowing [its product] to be especially adapted for use in an infringement," may face liability. However, nothing would prohibit a patentee from bringing a claim for inducing infringement against a seller of a component, asserting "deliberate indifference" to its patent. Indeed, *Grokster* held that copyright owners could potentially succeed on a claim for inducing infringement in circumstances where a theory of contributory infringement would fail. *See Grokster*, 545 U.S. at 935-37. That liability will become real for a component manufacturer if, for example, its customer becomes insolvent.

Additionally, the new "deliberate indifference" standard may increase the costs of certain sellers of

domestic products. That standard will create personal liability for directors and officers of corporations who are not acting with any intent to induce infringement. "[C]orporate officers who actively assist with their corporation's infringement may be personally liable for inducing infringement regardless of whether the circumstances are such that a court should disregard the corporate entity and pierce the corporate veil." *Manville*, 917 F.2d at 553 (citation omitted). After *SEB*, directors and officers would face liability based merely upon their "deliberate indifference" as to whether a product their employer sold may infringe. The end result will be reluctance by corporate directors and officers to take even reasonable risks, thereby reducing diversity in the market for consumer goods and increasing costs.

This Court in *Grokster* struck a balance between the protection of intellectual property rights and the promotion of free trade that would create liability for actively inducing infringement only if a party acted with "purposeful, culpable conduct to induce an infringement." ("We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential"). *Grokster*, 545 U.S. at 937. *SEB* upsets that balance. Unless this Court grants the petition, the burden on domestic and international commerce will needlessly increase.

CONCLUSION

For the foregoing reasons, Pentalpha respectfully requests that this Court grant its petition for a writ of certiorari.

Respectfully submitted,

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APPENDIX

APPENDIX A — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DECIDED FEBRUARY 5, 2010

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2009-1099, -1108, -1119

SEB S.A.,

Plaintiff/Counterclaim Defendant-Cross Appellant,

and

T-FAL CORPORATION,

Counterclaim Defendant,

v.

MONTGOMERY WARD & CO., INC.,

Defendant,

and

GLOBAL-TECH APPLIANCES, INC.,

Defendant-Appellant,

and

PENTALPHA ENTERPRISES, LTD.,

Defendant/Counterclaimant-Appellant.

Appendix A

Appeal from the United States District Court for the Southern District of New York in 99-CV-9284, Judge Stephen C. Robinson.

DECIDED: February 5, 2010

Before RADER , BRYSON, and LINN, *Circuit Judges.*

RADER, *Circuit Judge.*

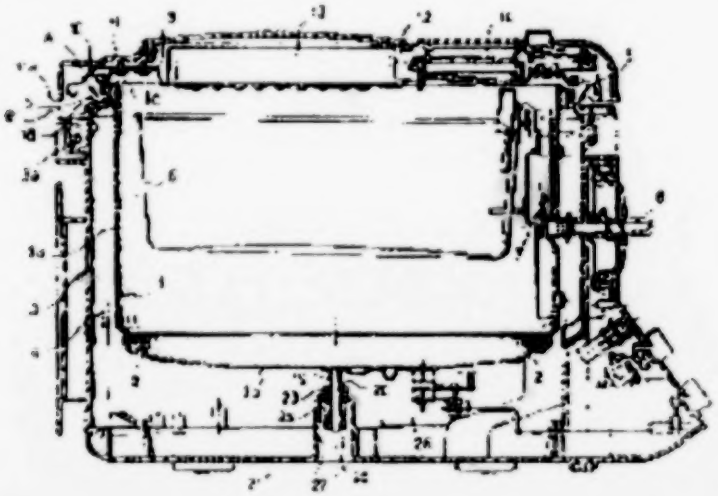
This case began in August of 1999 when Plaintiff SEB S.A. ("SEB") sued defendants Montgomery Ward & Co., Inc. ("Montgomery Ward"), Global-Tech Appliances, Inc. ("Global-Tech"), and Pentalpha Enterprises, Ltd. ("Pentalpha") for infringement of U.S. Patent No. 4,995,312 (the " '312 patent"). Almost seven years later, a jury found that Pentalpha had willfully infringed, and induced infringement of, claim 1 of the '312 patent and awarded SEB $ 4.65 million in damages. Pentalpha filed post-trial motions on a number of grounds. The district court granted them in part, reducing the amount of damages by $ 2 million. *SEB S.A. v. Montgomery Ward & Co.*, No. 99-9284, 2007 U.S. Dist. LEXIS 80394, 2007 WL 3165783 (S.D.N.Y. Oct. 9, 2007) ("*JMOL Opinion*"). The district court awarded SEB enhanced damages and attorneys' fees, but later vacated that award in light of this court's decision in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc). *SEB S.A. v. Montgomery Ward & Co.*, 2008 U.S. Dist. LEXIS 113468, 2008 WL 4540416 (S.D.N.Y. Oct. 1, 2008) ("*Enhanced Damages Opinion*"). On appeal, Pentalpha raises a host of issues that relate

to the jury verdict and the district court's post-trial rulings. SEB cross-appeals the district court's enhanced damages ruling. Detecting no reversible error in the district court proceedings, this court *affirms*.

I.

SEB is a French company that specializes in home-cooking appliances. It sells products in the United States through an indirect subsidiary, T-Fal Corp. ("T-Fal"). SEB owns the '312 patent, entitled "Cooking Appliance with Electric Heating," which claims a deep fryer with an inexpensive plastic outer shell, or skirt. In the past, skirts for deep fryers were made of plastic material capable of continuously withstanding temperatures higher than 150 [degrees] C. These heat resistant plastics, however, are expensive and therefore incompatible with large-scale manufacture of low-priced fryers.

The skirt disclosed in the '312 patent, labeled with the number 3 in the cross-section shown below, is well-insulated from the heat of the fryer's metal pan (1).



Appendix A

The '312 patent explains construction of a deep fryer with a well-insulated skirt. A ring of heat-insulating and heat-resistive material (5) joins the top edge of the skirt to the top edge of the pan. Other than that ring, however, the skirt is "completely free with respect to the pan." '312 patent col.1 l.65-col.2 l.2. The skirt and the pan are separated by "an air space of sufficient width to limit the temperature of the skirt." *Id.* at col.1 ll.60-64. Thus, because of the insulation provided by air space, the skirt "can be fabricated from inexpensive ordinary-grade plastic material [that] does not afford resistance to high temperatures." *Id.* at col.4 ll.32-35.

Claim 1 of the '312 patent, the only claim at issue, reads as follows (emphasis added):

> An electrical deep fryer comprising a metal pan (1) having a wall, and an electric heating resister [sic] (2) that heats said wall directly by conductive heating to a temperature higher than 150 [degrees] C, said pan (1) being surrounded by a plastic skirt (3), wherein said skirt (3) is of plastic material which does not continuously withstand a temperature of 150 [degrees] C., said skirt (3) entirely surrounding the lateral wall (1*a*) and the base (1*b*) of the pan and being separated from said wall and said base by an air space (4) of sufficient width to limit the temperature of the skirt (3) to a value which is compatible with the thermal resistance of the plastic material of the skirt (3), *said skirt (3) being completely*

> *free with respect to the pan (1) with the exception of a ring (5) which joins only the top edge (3a) of the skirt to the top edge (1c) of the pan and to which this latter is attached,* said ring (5) being of heat-insulating material which is continuously resistant to the temperature of the top edge (1c) of the pan (1).

Defendant Pentalpha is a Hong Kong corporation and a subsidiary of defendant Global-Tech, a British Virgin Islands corporation, which was formerly known as Wing Shing International, Ltd. (For convenience, this opinion will refer to Pentalpha and Global-Tech collectively as "Pentalpha.") Pentalpha began selling its accused deep fryers to non-party Sunbeam Products, Inc. ("Sunbeam") in 1997. In developing its deep fryer, Pentalpha purchased an SEB deep fryer in Hong Kong and copied its "cool touch" features. Shortly after agreeing to supply Sunbeam, Pentalpha obtained a "right-to-use study" from an attorney in Binghamton, New York. The attorney analyzed 26 patents and concluded that none of the claims in those patents read on Pentalpha's deep fryer. Pentalpha, however, did not tell the attorney that it had copied an SEB deep fryer.

Sunbeam resold the Pentalpha deep fryers in the United States under its own trademarks, "Oster" and "Sunbeam." On March 10, 1998, SEB sued Sunbeam in the United States District Court for the District of New Jersey, alleging that Sunbeam's sales infringed the '312 patent (the "Sunbeam Suit"). *See SEB S.A. v. Sunbeam Corp.*, No. 2:98-CV-1050 (date closed May 28, 2002).

Pentalpha was notified of the Sunbeam Suit on April 9, 1998. That suit ended in a settlement in which Sunbeam agreed to pay SEB $ 2 million.

Pentalpha also sold the same deep fryers to non-party Fingerhut Corp. ("Fingerhut") and defendant Montgomery Ward. These sales to Fingerhut and Montgomery Ward occurred after Pentalpha learned of the Sunbeam Suit. Like Sunbeam, Fingerhut and Montgomery Ward also sold the products under their own trademarks, CHEF'S MARK and ADMIRAL. Pentalpha sold these deep fryers to its three customers free on board Hong Kong or mainland China. "Free on board," or "f.o.b.," is a "method of shipment whereby goods are delivered at a designated location, usually a transportation depot, at which legal title and thus the risk of loss passes from seller to buyer." *Litecubes, LLC v. N. Light Prods., Inc.*, 523 F.3d 1353, 1358 n.1 (Fed. Cir. 2008).

II.

SEB filed a motion for a preliminary injunction on September 10, 1999. Following a claim construction hearing, the district court granted SEB's motion, holding that SEB was likely to prove at trial that Pentalpha's deep fryers infringe at least claim 1 of the '312 patent. *SEB S.A. v. Montgomery Ward & Co.*, 77 F. Supp. 2d 399 (S.D.N.Y. 1999) ("*Preliminary Injunction Opinion*"). This court affirmed the preliminary injunction order without opinion. *SEB, S.A. v. Montgomery Ward & Co., Inc.*, 243 F.3d 566 (Fed. Cir. 2000) (Rule 36).

Pentalpha then redesigned its deep fryer by replacing the ring that separated the skirt and the pan with six blocks or ring segments. SEB sought to supplement the original preliminary injunction to include Pentalpha's modified deep fryer. The district court granted SEB's application for supplemental injunctive relief in 2001, finding that SEB was likely to prove at trial that the modified fryer infringes at least claim 1 of the '312 patent under the doctrine of equivalents. *SEB S.A. v. Montgomery Ward & Co.*, 137 F. Supp. 2d 285 (S.D.N.Y. 2001) ("*DOE Opinion*"). Pentalpha's primary argument, which the district court did not adopt, was based on prosecution history estoppel. Pentalpha did not appeal the district court's ruling of infringement by equivalents.

Discovery closed on October 30, 2001. On April 17, 2006, the district court commenced a trial. During trial, the record shows that the jury received evidence of Pentalpha's sales to Sunbeam, Fingerhut, and Montgomery Ward. Following the close of evidence, Pentalpha moved for judgment as a matter of law ("JMOL") on SEB's claim that Pentalpha had induced infringement of the '312 patent through those sales. Pentalpha's JMOL motion was based on the lack of evidence that anyone at Pentalpha "had any knowledge whatsoever with respect to the existence of the patent." J.A. 2209. The district court noted at the Rule 50(a) motion proceedings that "there is no evidence that [Pentalpha] was aware of [the '312] patent" before April 9, 1998. Nonetheless, the court held that there was

evidence to support SEB's theory of inducement, which the court characterized as follows:

> [SEB is] saying that you could infer the specific intent to . . . encourage the infringement by the fact that [Pentalpha's president] doesn't disclose that [Pentalpha copied the SEB product] to the people doing the [patent] search. [Pentalpha] wants them to do a search that . . . is doomed to failure, and that that is enough, that a reasonable jury could infer that, specific intent . . . . Here is the argument. There are a zillion patent attorneys in New York City, [yet] [t]hey go to this guy in the middle of nowhere to do this patent search. . . . I don't know what happened. I'm not in [Pentalpha's President's] head. I don't know what he did. . . . I think it is . . . a reasonable argument, could a jury infer from those actions, if they chose to believe them in the way the plaintiffs want, that that was an indication that [he] understood that he was likely violating a patent, in fact violating a patent.

The district court therefore allowed SEB's inducement claim to reach the jury.

The jury found that Pentalpha, with both its original and modified deep fryers, willfully infringed claim 1 of the '312 patent. The jury also found that Pentalpha induced others to infringe with both versions of the fryers. As damages, the jury awarded SEB a total of $ 4.65 million as a reasonable royalty, with $ 3.6 million

attributable to Sunbeam's sales of Pentalpha's deep fryers, $ 540,000 to Fingerhut's sales, and $ 510,000 to Montgomery Ward's sales.

Pentalpha then renewed its motion for JMOL and moved for a new trial, arguing that SEB did not adequately prove inducement under 35 U.S.C. § 271(b). Pentalpha also sought an offset of damages in an amount equal to the $ 2 million that SEB received in its settlement with Sunbeam. SEB filed a cross motion for enhanced damages, attorneys' fees, prejudgment interest, and injunctive relief.

In response to Pentalpha's post-trial motions, the district court reduced the damages award by $ 2 million. *JMOL Opinion*, 2007 U.S. Dist. LEXIS 80394, 2007 WL 3165783, at *5. The trial court denied the rest of Pentalpha's post-trial motions. 2007 U.S. Dist. LEXIS 80394, [WL] at *12. The district court granted SEB's cross-motion in part, based on the reduced award, 2007 U.S. Dist. LEXIS 80394, [WL] at *10-12, but later vacated its award of enhanced damages and attorneys' fees based on *Seagate*, *Enhanced Damages Opinion*, 2008 U.S. Dist. LEXIS 113468, 2008 WL 4540416, at *4. Thus, the district court entered judgment against Pentalpha in the amount of $ 4,878,341. These appeals followed.

Appendix A

III.

As a threshold matter, this court needs to address a claim construction issue. The district court, as a part of its preliminary injunction order in 1999, construed the limitation "completely free with respect to the pan" in claim 1 to mean "there are no thermal bridges between the skirt and the pan." *Preliminary Injunction Opinion*, 77 F. Supp. 2d at 405. A thermal bridge is an element that conducts heat. As a matter of context, this court notes that a vertical stabilizing screw secures the skirt of Pentalpha's fryer to the base of the pan. This screw, however, is not a thermal bridge. Thus, the stabilizing screw does not preclude the conclusion that the skirt is "completely free with respect to the pan" under the district court's claim construction. But if "completely free" means instead "no solid material between the pan and the skirt," as Pentalpha contends, then the stabilizing screw absolves Pentalpha's deep fryer of infringement.

This court, of course, reviews claim construction without deference. *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1455-56 (Fed. Cir. 1998) (en banc). This court's prior affirmance of the district court's preliminary injunction order does not make the district court's claim construction in its 1999 opinion the law of the case. *See Int'l Commc'n Materials, Inc. v. Ricoh Co.*, 108 F.3d 316, 319 (Fed. Cir. 1997) (claim construction for a preliminary injunction is not definitive "without the more complete record that the district court deemed necessary to its own final decision"). The words of a claim

receive the meaning discernible by a person of ordinary skill in the art who has read the entire patent, including the specification, at the time of the invention. *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312-13 (Fed. Cir. 2005) (en banc). The claims themselves, both asserted and unasserted, govern the meaning of claim terms. *Id.* at 1314.

This court perceives a slight internal inconsistency with the district court's claim construction of "completely free" in the phrase "said skirt (3) being completely free with respect to the pan (1) with the exception of a ring (5)." The claim requires the ring to be "heat-insulating" and "continuously resistant to the temperature of the . . . pan." Thus, the ring is not a thermal bridge. If "completely free" merely meant "no thermal bridges between the skirt and the pan," the claim would not need to exclude expressly the ring from the completely free limitation.

Despite this minor inconsistency, the district court's construction of "completely free" rings true. Claim 8 of the '312 patent, which depends from claim 1, adds an insulated stabilizing screw between the base of the pan and the base of the skirt. '312 patent col.6 ll.19-24. With this context, a person of ordinary skill in the art would not read the "completely free" limitation of claim 1 to mean "no solid material between the pan and the skirt" because that reading would not allow for the vertical rod of claim 8. *See Phillips*, 415 F.3d at 1314 ("Differences among claims can . . . be a useful guide in understanding the meaning of particular claim terms.").

Moreover, the only embodiment in the specification includes solid material between the pan and the skirt, namely, the vertical rod, *id.* at col.3 ll.55-65, as well as a thermostat attached to the base of the pan, *id.* at col.4 ll.3-7. "[A] construction that would not read on the preferred embodiment would rarely if ever be correct and would require highly persuasive evidentiary support." *Chimie v. PPG Indus., Inc.*, 402 F.3d 1371, 1377 (Fed. Cir. 2005) (internal quotations and alterations omitted). Thus, with the preferred embodiment showing a vertical stabilizing screw, the "completely free" limitation cannot be read so broadly as to exclude this preferred embodiment.

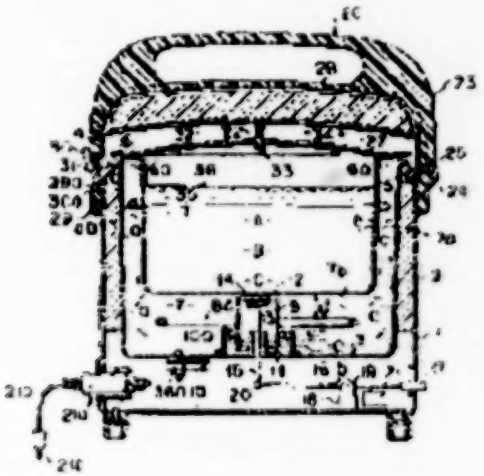
Finally, the specification repeatedly highlights the inventiveness of eliminating thermal bridges to prevent heat transfer to the plastic skirt. For example, the specification notes that in the prior art, "the attachment of the metal pan within the plastic skirt is such that numerous thermal bridges exist between said pan and said skirt." '312 patent col.1 ll.38-40. Those thermal bridges required the skirt to be "formed of [costly] plastic material." *Id.* at col.1 ll.41-42. Following the theme of preventing heat transfer, the specification discusses a thermostat between the pan and the skirt but emphasizes its placement "remote from the base 21 of the skirt 3 of plastic material in order to prevent any thermal bridge which would be liable to heat this plastic material to an excessive extent." *Id.* at col.4 ll.3-8. Thus, the patent stresses that eliminating thermal bridges is not the same as eliminating any solid material.

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Read in light of the entire specification and with an eye to the preferred embodiment, then, the term "completely free" means "practically or functionally free." Indeed, the specification uses the two terms "completely" and "practically" interchangeably. *Compare* '312 patent col. 1 ll.65-66 ("Said skirt is *completely free* with respect to the pan . . . .") (emphasis added) *with id.* at col. 4 ll.28-35 ("[I]n addition to the fact that the skirt 3 is *practically free* with respect to the pan 1 or in other words that no thermal bridge is created between the pan and the skirt, this latter can be fabricated from inexpensive ordinary-grade plastic material, which does not afford resistance to high temperatures.") (emphasis added). This court often assumes that different terms convey different meanings. *Symantec Corp. v. Computer Assocs. Int'l, Inc.*, 522 F.3d 1279, 1289 (Fed. Cir. 2008). That assumption, however, carries less weight when comparing a term in the claim to a term in the specification, especially where, as here, the specification only describes one embodiment. *Cf. Id.* ("[T]here is nothing in the claims, the specification or the prosecution history that suggests that the preamble language 'as it is being transferred' has any different meaning than [the claim term] 'prior to storage.'").

Pentalpha supplies some evidentiary support for its proposed construction, but that support is not "highly persuasive" or sufficient to overcome the meaning that embraces the preferred embodiment. During prosecution of the '312 patent, the examiner rejected the proposed claims as anticipated by or obvious over U.S. Patent No. 4,672,179 ("Onishi"). Onishi discloses a

rice cooker with the side walls of the pan and the side wall of the skirt separated by an adiabatic material, or a material that does not gain or lose heat:



Onishi at Fig. 1, col.2 ll.49-53.

To distinguish Onishi, the applicant stated

> in ONISHI . . . , the two walls 1 and 3 are separated by an adiabatic material 2 (whose nature is not specified) whereas in the case of the present invention, the outer plastic skirt 3 is completely free with respect to the pan 1 with the exception of a ring 5. *This means that the space comprised between the skirt 3 and the pan 1 is entirely occupied by air and that there is no solid material therebetween.*

A-119 (emphasis added). Pentalpha argues that SEB thereby narrowed the claim limitation "completely free"

during prosecution and that the doctrine of prosecution disclaimer should preclude the district court's construction. *See N. Am. Container, Inc. v. Plastipak Packaging, Inc.*, 415 F.3d 1335, 1346 (Fed. Cir. 2005) ("[W]e have previously explained that limitations may be construed to exclude a preferred embodiment if the prosecution history compels such a result.").

Contrary to Pentalpha's contentions, however, this court interprets this prosecution history as consistent with the district court's claim construction. As noted, this also allows this court to account for the only embodiment provided in the '312 patent's specification. Thus, read in context, the applicant's reference to "no solid material" refers only to the volume between the sides of the pan and skirt. As the quote from the prosecution history reveals, the applicant was only addressing the lack of "adiabatic material" in his invention to distinguish the Onishi reference. Indeed the applicant could not have intended his comment to preclude any solid material between the base of the pan and the base of the skirt because both Onishi and his own invention include a vertical stabilizing element.

Thus, this court does not read the prosecution history to alter or disclaim the district court's interpretation of the claim language. Pentalpha's attempt to create a disclaimer simply stretches this prosecution history too far. At most, the prosecution statement requires "completely free" to mean "no solid material between the sides of the pan and the sides of the skirt and no thermal bridges between the base of

the skirt and the base of the pan." The additional precision of this construction would also avoid the slight internal inconsistency of excepting the ring from the "completely free" limitation. In any event, this court detects no reversible error in the district court's claim construction.

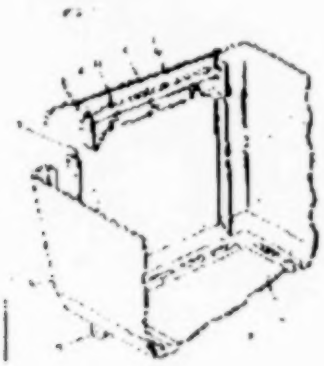
IV.

Following the jury verdict, Pentalpha moved for JMOL based on prosecution history estoppel, arguing that SEB's statements during prosecution should preclude any infringement by its modified deep fryer under the doctrine of equivalents. As noted, Pentalpha modified its deep fryer by replacing the ring that separates the skirt and the pan with six blocks. According to Pentalpha, the applicant's prosecution arguments during patent acquisition at the PTO preclude a finding that the six blocks are equivalent to the ring in claim 1. *See Conoco, Inc. v. Energy & Envtl. Int'l, L.C.*, 460 F.3d 1349, 1364 (Fed. Cir. 2006) ("To invoke argument-based estoppel . . . the prosecution history must evince a clear and unmistakable surrender of subject matter.").

Pentalpha did not seek JMOL on this ground at the close of evidence. Under Rule 50(b), a party may "renew" an earlier "request for judgment as a matter of law by filing a motion no later than 10 days after entry of judgment." Fed. R. Civ. P. 50(b); *see Broadnax v. City of New Haven*, 415 F.3d 265, 268 (2d Cir. 2005). If an issue is not raised in a previous motion for a directed verdict,

however, this court's review is highly deferential. The Court of Appeals for the Second Circuit, whose law governs the procedural aspects of this case, *see Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 583 F.3d 832, 840 (Fed. Cir. 2009), requires that, in such a case, "a Rule 50(b) motion should not be granted unless it is required to prevent manifest injustice." *Broadnax*, 415 F.3d at 268 (quotation marks omitted).

During prosecution, the applicant argued that the claims were not obvious over Onishi in light of a Spanish reference ("Taurus"), which discloses a fryer with openings in the outer wall:



To distinguish Taurus, the applicant explained that cool outside air circulated through the above spaces between the inner and outer walls. This cooling mechanism is called convective cooling. Onishi, the applicant argued, relied on convective heating. Onishi itself explains that the heater heats the air in the heating space so as to uniformly heat the pot. Onishi col.1 ll.45-

59. The applicant argued to the PTO that the teachings of Onishi and Taurus could not be combined to achieve the claimed deep fryer because neither convective "heating or cooling mechanisms has anything to do with the present invention."

At trial, however, SEB's expert, Charles Van Horn, testified that the temperature of the skirt in Pentalpha's modified deep fryer might be kept at a low level in part due to hot air leaking out of the deep fryer. Specifically, Mr. Van Horn testified that the ring segments in the modified fryer did not completely close off the air space between the pan and the skirt. Moreover, he indicated that hot air escaped the modified fryer, although he did not know the rate of escape. And he affirmed that a deep fryer that has hot air leaking out of it will result in a cooler outside plastic wall than a deep fryer that does not. Pentalpha thus argues that its modified deep fryer cannot infringe under the doctrine of equivalents because the ring segments allow for the same convective cooling that SEB disavowed during prosecution of the '312 patent.

This court can assume, without deciding, that the applicant's statement during prosecution disclaimed any coverage of deep fryers that control the temperature of the outer wall through convective cooling. A reasonable jury could nonetheless conclude that Pentalpha's modified fryer does not rely on convective cooling to control the temperature of the skirt. The six large vent holes in Taurus that together span almost the entire width of the side wall do not readily compare to

Appendix A

Pentalpha's modified fryer, which was presented to the jury and appears to allow only minimal air leakage. Mr. Van Horn's testimony about some hot air leakage does not compel the jury to find that the modified deep fryer relied on convective cooling to control the temperature of the wall. The jury might also reasonably conclude that the hot air leakage along the ring of the modified fryer did not appreciably contribute to controlling the temperature of the outer plastic wall. Because Pentalpha did not raise its JMOL motion in a timely fashion, this court must detect a manifest injustice before sustaining this untimely motion. With substantial questions about the operation of the modified fryer and Mr. Van Horn's vague testimony on convective cooling, this court detects no manifest injustice in honoring the jury's finding of infringement under the doctrine of equivalents.

This court also perceives no prejudice to Pentalpha in the district court's conclusion at the preliminary injunction stage that prosecution history estoppel did not apply. As discussed already, a preliminary injunction ruling is by nature only preliminary. Pentalpha had opportunities to renew its argument before the jury or to request a jury instruction estopping application of the doctrine of equivalents to a fryer that relies on convective cooling. Finally, Rule 50 at least required Pentalpha to raise its argument before the jury verdict. *Broadnax*, 415 F.3d at 268. By the time Pentalpha filed its post-verdict JMOL motion, it was too late. And, as noted, this court discerns no material injustice in the jury's findings in this setting.

Appendix A

V.

The district court allowed SEB's expert, Mr. Van Horn, to testify over Pentalpha's objections. Pentalpha argued that Mr. Van Horn should be precluded from testifying as to infringement on the ground that he lacked expertise in the art of designing deep fryers. On appeal, Pentalpha argues that the district court's decision to admit Mr. Van Horn's testimony was an abuse of discretion.

The district court did not abuse its discretion by admitting Mr. Van Horn's testimony. This court will not disturb a district court's evidentiary rulings unless "manifestly erroneous." *SR Int'l Bus. Ins. Co. v. World Trade Ctr. Props., LLC*, 467 F.3d 107, 119 (2d Cir. 2006) (quotation omitted). District courts enjoy "wide latitude" to determine admissibility and "the mode and order" of evidentiary presentations. *Id.* In this case, the district court was in the best place to judge that Mr. Van Horn had the "knowledge, skill, experience, training, [and] education" of a "specialized" nature that was likely to "assist the trier of fact to understand the evidence or to determine" infringement. Fed. R. Evid. 702.

Mr. Van Horn has an undergraduate degree in chemical engineering from Lehigh University, a J.D. from American University, and an M.B.A. from George Washington University with a specialty in behavioral science. He worked in the U.S. Patent & Trademark Office for 31 years in various capacities, including as a patent examiner in the classes of fiber technology,

electric photography, and structural and nonstructural laminates; as a supervisor in miscellaneous chemical technology; and as a director of the organic chemistry and biotechnology group. Although he testified that he is not skilled in designing deep fryers, Mr. Van Horn explained that his experience was relevant because the claimed invention "involves the selection of particular . . . polymer material that have certain characteristics" and that "[m]ost of the areas [he has] worked in . . . have used polymers in one form or another." Moreover Mr. Van Horn did not testify about deep frying per se, but instead described the importance of selecting a material for the ring or ring segments that would be resistant to the hot pan, as well as the importance of the spacing between the hot pan and the skirt. In light of the court's claim construction, which, as discussed, included a reference to thermal bridges, Mr. Van Horn's testimony established an adequate relationship between his experience and the claimed invention.

This case comes nowhere close to the unusual situation in *Sundance, Inc. v. DeMonte Fabricating Ltd.*, 550 F.3d 1356 (Fed. Cir. 2008). In *Sundance* this court held that a district court abused its discretion when it admitted the testimony of a patent law expert "[d]espite the absence of any suggestion of relevant technical expertise." *Id.* at 1361-62. Here, as explained, Mr. Van Horn had sufficient relevant technical expertise for the district court to allow him to testify. This court detects no abuse of discretion.

VI.

Pentalpha also challenges the district court's judgment under 35 U.S.C. § 271(a) and (b). As to § 271(a), direct infringement, Pentalpha challenges the district court's jury instructions. As to § 271(b), inducement of infringement, Pentalpha contends that the district court erred in its JMOL rulings because Pentalpha had no actual knowledge of the patent during part of the time it was selling deep fryers to Sunbeam. *See DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc) ("The requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement *that he or she knew of the patent.*") (emphasis added). Before addressing either of Pentalpha's arguments, this court must determine if it needs to address direct infringement only, inducement of infringement only, or both.

Under the general verdict rule, where one or more of multiple claims is found legally invalid, a reviewing court must reverse and order a new trial if unable to determine whether the invalid theory tainted the verdict. *AIG Global Sec. Lending Corp. v. Banc of America Sec. LLC*, 646 F. Supp. 2d 385, 406 (S.D.N.Y. 2009) (collecting cases). That rule has also been held to apply in cases where the jury received multiple legal theories of liability. *Id.* (same).

Here, the jury received a verdict form with the label "special" rather than general. Using that verdict form,

the jury found both direct infringement and inducement of infringement. Normally, such a verdict could support a damages award even if only one theory was correct. As long as the court can "determine" that "the verdict was based upon the [valid] theory," the general verdict rule does not require a new trial. *Id.* A closer look at the damages question in this verdict form, however, along with the jury instructions, reveals a hopeless ambiguity.

The verdict form itself suggests that the jury was asked to base its damages calculation on inducement only. The verdict form asked, "What amount of damages in the form of a reasonable royalty do you find the plaintiff to have proven by a preponderance of the evidence with respect to deep fryers *sold by* Sunbeam, Fingerhut, and Montgomery Ward?" J.A. 2508 (emphasis added). This instruction advised the jury to consider deep fryers sold by Pentalpha's customers, as opposed to the deep fryers that Pentalpha sold to its customers. Therefore, this instruction could have led the jury to base the damages calculation on inducement alone.

On the other hand, the jury instructions also indicate that the jury could assess damages for direct infringement. The instructions stated:

> The patent law specifically provides that the amount of damages that the Defendants must pay Plaintiff for infringing Plaintiff's patent may not be less than a reasonable royalty *for the use*

> *that the Defendants made of Plaintiff's invention.* You must determine what a reasonable royalty would be for the infringing sales *of these Defendants and their subsidiaries.*

J.A. 2484 (emphasis added). In contrast to the verdict form, the jury instructions required the jury to look to Pentalpha's sales. This language requires a classic direct infringement analysis. *See, e.g., Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1119 (Fed. Cir. 1996) (affirming a reasonable royalty award where "the district court awarded [the patentee] a royalty rate of 20% on the gross value of [the direct infringer's] applicable sales").

The record therefore does not clearly indicate that the jury found damages based on inducement alone, or based on direct infringement alone, or both. The general verdict rule requires that the only way this court can affirm in such a circumstance is by determining that the jury's finding of both direct infringement and inducement of infringement was proper. As explained below, after carefully examining the record and the authority cited by both parties, this court discerns that this verdict satisfies that requirement and was proper on both counts.

Appendix A

A.

Section 271(a) makes it an act of infringement to "without authority make[], use[], offer[] to sell, or sell[] any patented invention, within the United States." Pentalpha faults the jury instructions with respect to direct infringement on two grounds, each of which relates to the extraterritorial effect of U.S. patent law. First, Pentalpha argues that the district court should have charged the jury that an offer in the United States to sell goods outside of the United States would not violate the "offer to sell" provision of § 271(a). Second, Pentalpha argues that the district court erred by instructing the jury that, in determining if a sale occurred in the United States, it could consider "where the products were shipped from and where the products were shipped to."

Pentalpha does not specify the point in the record showing an objection to these portions of the jury instructions. Fed. R. Civ. P. 51 requires a litigant to make a timely objection to a jury instruction in order to challenge that instruction on appeal. "The purpose of this Rule is to require the parties to give the trial court an adequate opportunity to cure any error in the instructions before the jury deliberates." *Metromedia Co. v. Fugazy*, 983 F.2d 350, 363 (2d Cir. 1992). The United States Court of Appeals for the Second Circuit reviews jury instructions for which a timely objection is lacking for fundamental error. *Fabri v. United Techs. Int'l, Inc.*, 387 F.3d 109, 121 (2d Cir. 2004). "Fundamental error is more egregious than the 'plain' error that can excuse a

procedural default in a criminal trial and is so serious and flagrant that it goes to the very integrity of the trial." *Id.* (quoting *Jarvis v. Ford Motor Co.*, 283 F.3d 33, 62 (2d Cir. 2002)).

Neither of the alleged problems with the district court's jury instruction constitutes fundamental error. This court has yet to define the full territorial scope of the "offers to sell" offense in § 271(a). *But see Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1260 (Fed. Cir. 2000) (Newman, J., concurring) ("[A]n offer to sell a device or system whose actual sale can not infringe a United States patent is not an infringing act under § 271."). But even if this court had, Pentalpha's sales in this case did not so clearly occur overseas that the district court's failure to include such a limitation in its jury instructions affected the integrity of the trial.

To the contrary, the only evidence on which Pentalpha relies to argue that its sales occurred overseas was that it delivered its products to Sunbeam, Montgomery Ward, and Fingerhut f.o.b. Hong Kong or mainland China. This court has "rejected the notion that simply because goods were shipped f.o.b., the location of the 'sale' for the purposes of § 271 must be the location from which the goods were shipped." *Lightcubes*, 523 F.3d at 1370.

For the same reason, the district court's instruction that the jury could consider "where the products were shipped from and where the products were shipped to" in determining if a sale occurred in the United States

was not a fundamental error. If anything, the jury instructions helped Pentalpha: the court instructed the jury that it could consider the f.o.b. terms, even though those terms were not dispositive. Other than the f.o.b. terms in the invoices presented to the jury, the record shows that Pentalpha intended to sell its deep fryers directly into the United States. Pentalpha itself affixed the American trademarks of Sunbeam, Montgomery Ward, and Fingerhut to the deep fryers, and it manufactured the deep fryers with North American electrical fittings. Moreover, the invoices between Pentalpha and the three U.S. companies all identify delivery to U.S. destinations. In sum, this court does not perceive any fundamental error with the jury instructions in light of the record evidence.

B.

"Whoever actively induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b). In *DSU Medical*, which was decided after the jury verdict in this case, this court addressed the intent necessary to support a finding of induced infringement. Under that rule, the plaintiff must show that the alleged infringer knew or should have known that his actions would induce actual infringements. 471 F.3d at 1304. This court further stated that "[t]he requirement that the alleged infringer knew or should have known his actions would induce actual infringement *necessarily includes the requirement that he or she knew of the patent.*" *Id.* (emphasis added). This court's opinion did not, however, set out the metes and bounds of the knowledge-of-the-

patent requirement. *Compare Insituform Techs., Inc. v. CAT Contracting, Inc.*, 161 F.3d 688, 695 (Fed. Cir. 1998) ("A crucial element of induced infringement is that the inducer must have actual *or constructive* knowledge of the patent.") (emphasis added).*

The facts of *DSU Medical* did not require this court to address the scope of the knowledge requirement for intent. Instead, the court resolved conflicting case law setting forth both a requirement to knowingly induce infringement and to merely knowingly induce the acts that constitute direct infringement. *Id.* at 1306. In other words, the court decided the target of the knowledge, not the nature of that knowledge. As Chief Judge Michel's concurring opinion noted, the record in *DSU Medical* showed that the alleged infringer had actual knowledge of the patent-in-suit. *Id.* at 1311. "Accordingly, the 'knowledge of the patent' issue [was] not before us." *Id.*

This court has made clear, however, that inducement requires a showing of "'specific intent to encourage another's infringement.'" *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 699 (Fed. Cir. 2008) (quoting *DSU*

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* SEB contends that this court need not reach this issue because the district court reduced the damages award by $ 2 million based on SEB's settlement with Sunbeam and thus eliminated all damages for pre-notice sales. The record indicates that the district court did not attribute the reduction to any particular Sunbeam sales. Therefore this court has no way to ascertain on appeal if the reduction precludes the knowledge and intent issue.

Medical, 471 F.3d at 1306). As other courts have observed, "specific intent" in the civil context is not so narrow as to allow an accused wrongdoer to actively disregard a known risk that an element of the offense exists. *See Crawford-El v. Britton*, 951 F.2d 1314, 1318, 293 U.S. App. D.C. 47 (D.C. Cir. 1991) (equating specific intent and deliberate indifference); *Boim v. Holy Land Found. for Relief & Dev.*, 549 F.3d 685, 693 (7th Cir. 2008) (equating intentional misconduct with knowledge and deliberate indifference).

Pentalpha argues that the court in *DSU Medical* did not mean "knew or should have known of the patent" because the decision states "knew of the patent." *See* 471 F.3d at 1304. At the outset, this court notes that the Supreme Court has indicated, in a different civil context, that "deliberate indifference" is not necessarily a "should have known" standard. *Farmer v. Brennan*, 511 U.S. 825, 840, 114 S. Ct. 1970, 128 L. Ed. 2d 811 (1994). The latter implies a solely objective test, whereas the former may require a subjective determination that the defendant knew of and disregarded the overt risk that an element of the offense existed. *See id.* ("'[D]eliberate' is better read as implying knowledge of a risk, [but] the concept of constructive knowledge is familiar enough that the term 'deliberate indifference' would not, of its own force, preclude a scheme that conclusively presumed awareness from a risk's obviousness."). For example, an accused infringer may defeat a showing of subjective deliberate indifference to the existence of a patent where it shows that it was genuinely "unaware even of an obvious risk." *Id.* at 844.

More importantly, and as courts have observed in a variety of settings, the standard of deliberate indifference of a known risk is not different from actual knowledge, but is a form of actual knowledge. *See, e.g.*, *United States v. Carani*, 492 F.3d 867, 873 (7th Cir. 2007) ("Deliberate avoidance is not a standard less than knowledge; it is simply another way that knowledge may be proved."); *Woodman v. WWOR-TV, Inc.*, 411 F.3d 69, 84 n.14 (2d Cir. 2005) ("We note that a party's knowledge of a disputed fact may also be proved through evidence that he consciously avoided knowledge of what would otherwise have been obvious [to] him.").

In this case, this court must determine whether the district court erred in denying Pentalpha's motion for JMOL where the record shows no direct evidence that Pentalpha had actual knowledge of the patent before April 9, 1998. The standard of review following the denial of JMOL is de novo. *Fabri*, 387 F.3d at 119. Nevertheless, this court must apply the same standard as the district court, which is deferential to the jury's verdict. *AMW Materials Testing, Inc. v. Town of Babylon*, 584 F.3d 436, 456 (2d Cir. 2009). A grant of JMOL is appropriate only where a reasonable jury would not have a legally sufficient evidentiary basis to find for the non-movant on the issue. *Agrizap, Inc. v. Woodstream Corp.*, 520 F.3d 1337, 1342 (Fed. Cir. 2008) (citing Fed. R. Civ. P. 50(a)). For that reason,

> [w]e will reverse the denial of a motion for judgment as a matter of law only when there is such a complete absence of evidence

> supporting the verdict that the jury's findings could only have been the result of sheer surmise and conjecture, or where there is such an overwhelming amount of evidence in favor of the moving party that fair minded jurors could not reasonably arrive at a verdict against the movant.

SR Int'l, 467 F.3d at 118-119 (internal quotation marks and alterations omitted).

As just explained, a claim for inducement is viable even where the patentee has not produced direct evidence that the accused infringer actually knew of the patent-in-suit. This case shows such an instance. The record contains adequate evidence to support a conclusion that Pentalpha deliberately disregarded a known risk that SEB had a protective patent. The jury heard evidence that Pentalpha purchased an SEB deep fryer in Hong Kong and copied all but the cosmetics. The owner of a company related to Pentalpha testified that Pentalpha's engineer took a T-Fal deep fryer and used "the same ring that separates . . . the wall making it a cool touch unit and the construction, basically everything the same; thermostat, it was the same; the timer was the same, just a little bit different on the cosmetics of the outside appearance for the deep fryer." Again, the record shows that Pentalpha hired an attorney to conduct a right-to-use study, but did not tell him that it had based its product on SEB's product.

A failure to inform one's counsel of copying would be highly suggestive of deliberate indifference in most circumstances. Here, the jury also heard testimony that indicated that Pentalpha's president, John Sham, was well versed in the U.S. patent system and understood SEB to be cognizant of patent rights as well. Sham testified that he was the named inventor on 29 U.S. patents and that Pentalpha and SEB had an earlier business relationship that involved one of Pentalpha's patented steamer products. The record thus contains considerable evidence of deliberate indifference.

In contrast, Pentalpha did not produce any exculpatory evidence. As noted, proof of knowledge through a showing of deliberate indifference may be defeated where an accused infringer establishes that he actually believed that a patent covering the accused product did not exist. But here Pentalpha did not argue that it or its employees actually believed that an SEB patent did not exist. Pentalpha's brief implies that it should be excused because the SEB deep fryer that it copied was not marked with a U.S. patent number. But Pentalpha does not argue that it relied on the lack of a mark to come to a belief that the deep fryer was not patented. And even if it had, such an argument would likely lack credibility unless it were supplemented by an explanation for why one would expect an SEB deep fryer purchased in Hong Kong to have U.S. patent markings.

This opinion does not purport to establish the outer limits of the type of knowledge needed for inducement.

For instance, a patentee may perhaps only need to show, as *Insituform* suggests, constructive knowledge with persuasive evidence of disregard for clear patent markings, similar to the constructive notice requirement in § 287(a). *See infra* Part VII. This court does not set those boundaries now, just as it did not set them in *DSU Medical*. Here, the record establishes sufficient support for the conclusion that Pentalpha deliberately ignored the risk that SEB had a patent that covered its deep fryer. Thus, the jury's finding of inducement is justified, and the damage award, even if it was based on inducement alone, stands.

VII.

Pentalpha also challenges the damages award on the basis that, contrary to § 287(a), the record did not show that SEB marked "substantially all" of its deep fryers before July 10, 1998. Pentalpha also sought a reduction in damages, alleging that the record shows that SEB withheld documents related to marking. The district court declined to reduce the award on either ground.

Under § 287(a) a patentee that sells its patented product within the United States must provide actual or constructive notice of the patent to the accused infringer to qualify for damages. *Sentry Prot. Prods., Inc. v. Eagle Mfg. Co.*, 400 F.3d 910, 918 (Fed. Cir. 2005). Constructive notice requires the record to show that "the patentee consistently marks substantially all of its patented products." *Id.*

Appendix A

At trial, an SEB executive, Gregers Infeld, affirmed that "to the best of [his] knowledge" SEB's deep fryers were "always" marked and that SEB had a policy of marking its products. SEB also put into evidence one of its deep fryers with an unknown manufacturing date that had a sticker that listed the '312 patent. On cross examination, however, Infeld testified that "there was a batch of products where the patent marking wasn't on." In addition to that testimony on cross, Pentalpha also relies heavily on Infeld's admission, at his deposition, that he had no knowledge of SEB's marking practices.

Once again, the district court properly denied Pentalpha's motions for JMOL. The record supplies sufficient evidence to support the jury's conclusion that SEB consistently marked substantially all of its deep fryers. Indeed, the record at trial did not even contain Infeld's deposition testimony. In any event, the record supports the jury verdict.

Pentalpha contends that discovery misconduct justifies a reduction in the damage award. The discovery dispute at issue extends back five years before trial. In May of 2001, Pentalpha served discovery requests seeking, among other things, documents relating to, and a Rule 30(b)(6) witness with knowledge of, SEB's patent marking practices. SEB produced only a one-page document: a picture of a sample sticker that listed the '312 patent. SEB objected to the Rule 30(b)(6) request. Pentalpha filed a motion to compel in response to SEB's objection. On October 5, 2001, Magistrate Judge Yanthis, who had been appointed to oversee discovery,

refused to consider the motion to compel due to the parties' failure to meet and confer.

The marking issue arose again with Pentalpha's motion in limine, filed four-and-a-half years later, in which Pentalpha moved to exclude any evidence related to marking at trial. At the hearing on the motion, SEB's counsel asserted that there were "no other documents" concerning patent markings. Accordingly, the district court denied Pentalpha's motion, but noted that "[i]f witnesses on the stand say there are other documents, we've got a different issue before us."

At trial, Infeld testified that SEB's factories print the stickers found on its deep fryers based on a "list which shows [the factories] exactly what needs to be put on" and that the compilation of that list required a lot of paperwork. Pentalpha relied on that testimony in its post-verdict JMOL to argue that SEB did not produce documents related to marking, namely, the paperwork needed to compile the sticker list. The district court denied Pentalpha's motion on the ground that Pentalpha had delayed too long in seeking these documents and did not raise the issue immediately after Infeld's trial testimony. *JMOL Opinion*, 2007 U.S. Dist. LEXIS 80394, 2007 WL 3165783, at *2.

The district court did not abuse its discretion in denying Pentalpha's motion for JMOL on discovery misconduct grounds. Pentalpha clearly forfeited the issue, if not during its four-and-a-half year silence before trial, then when it did not object during trial following

Infeld's testimony. Pentalpha cannot "fail to prepare [its] case[] adequately and then seek to remedy the defects after judgment." *Korea First Bank v. Lee*, 14 F. Supp. 2d 530, 532-33 (S.D.N.Y. 1998).

VIII.

Finally, Pentalpha appeals the district court's denial of its motion for new trial, which was based on SEB's attorney's allegedly improper argument during his closing argument on reasonable royalty damages. As a part of its damages case, SEB relied on a price list that listed its "cool wall" deep fryers at around $ 40 per unit. But an SEB executive testified at trial that, although he thought SEB made a profit, SEB did not always sell its deep fryers at the list prices. Relying on that testimony, Pentalpha moved for JMOL at the close of evidence on SEB's claim for lost profits. The district court granted that motion, concluding that "[t]here's nothing in the record, in my view, from which [the jury] could say, 'this is what a single deep fryer sold for.'" The district court allowed SEB's claim for damages based on a reasonable royalty to reach the jury.

During summation on its reasonable royalty claim, SEB's attorney argued that SEB was making a "substantial profit" through its deep fryers, that it "got something close to [its] list prices", and that it "sought to obtain a gross margin of about 40 to 45 percent of the selling price." Pentalpha objected during and after the summation on the basis that the court had already rejected SEB's claim for lost profits. SEB's arguments

with respect to a reasonable royalty, Pentalpha argued, were just another version of its baseless lost profit argument. The district court overruled Pentalpha's objections, but warned the jury that its "recollection of what the witness has said what a gross margin was and what a profit was in this case is what should control."

"[W]e will reverse a district court's decision to grant or deny a motion for a new trial only for an abuse of discretion." *Song v. Ives Labs., Inc.*, 957 F.2d 1041, 1047 (2d Cir. 1992). Reasonable royalty damages postulate a hypothetical negotiation between a willing licensor and licensee at the time of infringement. *Minco*, 95 F.3d at 1119. "This hypothetical construct seeks the percentage of sales or profit likely to have induced the hypothetical negotiators to license use of the invention." *Id.* In denying Pentalpha's motion for a new trial, the district court held that although "the Court ruled that [lost profits] had not been shown with sufficient exactness . . . this does not mean that the jury could not consider SEB's *expectations* of profits as part of a hypothetical negotiation." *JMOL Opinion*, 2007 U.S. Dist. LEXIS 80394, 2007 WL 3165783, at *7 (citing *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970)).

The district court did not abuse its discretion in declining to grant a new trial to Pentalpha based on the summation of SEB's counsel. The record adequately supports SEB's argument that it sought to obtain a gross margin of about 40 to 45 percent of the list price. There is a difference between an expectation of success and

actual success at achieving a certain margin, and that difference is relevant in calculating the hypothetical negotiation. But this court sees no reason to preclude a jury from hearing attorney argument based on an expectation of success, particularly when Pentalpha had every opportunity to respond by highlighting to the jury that SEB's stated gross margin was only an expectation and that, absent established commercial success at that rate, the hypothetical negotiation should result in a lower rate. SEB's argumentative efforts to frame the hypothetical negotiation in its favor were not improper. Moreover the district court did not abuse its discretion in denying a new trial on this basis.

IX.

SEB cross appeals the district court's decision to set aside its original awards of enhanced damages and attorneys' fees. Those awards were based on the jury's finding of willfulness, *JMOL Opinion*, 2007 U.S. Dist. LEXIS 80394, 2007 WL 3165783, at *10-12, but the district court vacated them in light of this court's intervening opinion in *Seagate*, *Enhanced Damages Opinion*, 2008 U.S. Dist. LEXIS 113468, 2008 WL 4540416, at *4.

In *Seagate*, this court set out a new test for willful infringement. It overruled the affirmative duty of due care set forth in *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983), and held that proof of willful infringement requires a patentee to show by clear and convincing evidence that,

as a threshold matter, "the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." 497 F.3d at 1371. The district court, proceeding under pre-*Seagate* law, instructed the jury that a potential infringer "has an affirmative duty of due care not to infringe" a known patent, and that failure to abide by that duty constituted willful infringement. The jury found Pentalpha's infringement willful.

In vacating its award of enhanced damages and attorneys' fees, the district court held:

> The record contains evidence from which a jury *could* find that the Seagate standard of objective recklessness is satisfied. . . . The evidence regarding Pentalpha's willfulness, however, is not so one-sided or overwhelming to allow the Court to conclude that a jury, properly instructed under the new *Seagate* standard, was *required* to find, by *clear and convincing evidence*, willful infringement.

Enhanced Damages Opinion, 2008 U.S. Dist. LEXIS 113468, 2008 WL 4540416, at *3. This court detects no reversible error in this analysis.

Importantly, SEB does not ask this court to order a new trial on willfulness. Had it asked, this court might have granted the request in light of the district court's conclusion that the willfulness verdict could have gone either way under the *Seagate* test. "An erroneous

instruction, unless harmless, requires a new trial." *Anderson v. Branen*, 17 F.3d 552, 556 (2d Cir. 1994); *see Voda v. Cordis Corp.*, 536 F.3d 1311, 1328 (Fed. Cir. 2008) (remanding and noting that the district court "may at its discretion assess Voda's evidence of willful infringement under the [intervening] *Seagate* standard to determine whether a new trial on willfulness is necessary"). Instead, SEB argues that the evidence on willfulness is so strong that the district court erred in vacating the enhanced damages and attorneys' fees awards. This court agrees with the district court that SEB's evidence is not so strong that SEB is entitled to a finding of willful infringement as a matter of law.

SEB also argues that there were factors other than willful infringement that warranted an award of attorneys' fees, focusing primarily on alleged litigation misconduct. But the district court apparently did not find any litigation misconduct sufficient to warrant an award of attorneys' fees. *Enhanced Damages Opinion*, 2008 U.S. Dist. LEXIS 113468, 2008 WL 4540416, at *4. Moreover this court declines to impose attorneys' fees on a different basis than ordered by the district court.

Finally, SEB appeals the district court's modification of a pre-judgment attachment in light of its ruling with respect to *Seagate*, but makes no arguments in its briefs with respect to that appeal. Any claim of error with respect to that modification is therefore waived.

Appendix A

X.

For the foregoing reasons, the judgment of the United States District Court for the Southern District of New York is affirmed.

AFFIRMED.

COSTS

Each party shall bear its own costs.

APPENDIX B — MEMORANDUM DECISION AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK DATED OCTOBER 9, 2007

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

99 Civ. 9284 (SCR)

SEB S.A.,

Plaintiff,

v.

MONTGOMERY WARD & CO., et al.,

Defendants.

MEMORANDUM DECISION AND ORDER

STEPHEN C. ROBINSON, United States District Judge:

Plaintiff brought this action, alleging patent infringement related to commercial deep fryers. Plaintiff asserted infringement of U.S. Patent No. 4,995,312, entitled "Cooking appliance with electric heating" ("the '312 patent"). Following trial, where the jury rendered a verdict in favor plaintiff, defendants move for judgment as a matter of law pursuant to Federal Rule of Civil Procedure 50, or in the alternative for a new trial pursuant to Rule 59. Plaintiff makes a motion for enhanced damages, attorney fees, and other relief.

Appendix B

I. Defendants' Motion for Judgment as a Matter of Law

Defendants make a renewed motion for judgment as a matter of law under Rule 50(b), on various grounds. "In deciding a Rule 50(b) motion, the Court has two options: if a verdict was returned, the court may, in disposing of the new motion, allow the judgment to stand or may reopen the judgment and either order a new trial or direct the entry of judgment as a matter of law." *EMI Music Mktg. v. Avatar Records, Inc.*, 364 F. Supp.2d 337, 344 (S.D.N.Y. 2005). In making it's decision, a court should consider the evidence "in the light most favorable to the non-moving party and give that party the benefit of all reasonable inferences from the evidence that the jury might have drawn in that party's favor." *Morales v. City of New York*, No. 99 Civ. 10004, 2000 U.S. Dist. LEXIS 18711, *6 (S.D.N.Y. December 29, 2000). Judgment as a matter of law should be granted when there is no legally sufficient evidentiary basis for a reasonable jury to find for a party on an issue. *Nadel v. Isaksson*, 321 F.3d 266, 271 (2d Cir. 2003). "Weakness in the evidence does not justify judgment as a matter of law." *Dagen v. CFC Group Holdings Ltd.*, No. 00 Civ. 5682, 2004 U.S. Dist. LEXIS 6582, *7 (S.D.N.Y. April 13, 2004). Defendants' individual bases for their motion are discussed separately below.

Appendix B

A. Lack of Evidence of Patent Markings

Defendants first move for judgment on SEB's claims for reasonable royalties on Defendants' sales before July 10, 1998 because there was insufficient evidence for a jury to conclude that the deep fryers sold before that date contained required patent markings. Defendants' motion on this basis is denied.

Plaintiff identifies the testimony of Mr. Gregers Infeld, a senior officer at SEB, and indicate that he testified that "substantially all" fryers sold before July 10, 1998 were properly marked. Infeld testified that it was SEB's policy to mark the fryers and that SEB did always mark the fryers to the best of his knowledge. (Tr: 120:13 -121:3). Plaintiff additionally admitted into evidence two fryers from after July 1998 which were marked.

Defendants impeach the testimony of Infeld because 1) he testified at a 30(b)(6) deposition that at the time of the deposition he had no knowledge of this topic; and 2) he acknowledged that a single batch of fryers sold in the year 2000 was not marked. Neither reason is an appropriate basis to grant defendants judgment as a matter of law.

First, the strength of Mr. Infeld's testimony in light of his testimony at his 30(b)(6) deposition may be the subject of cross-examination, but is not an appropriate basis for granting judgment as a matter of law because it goes to the strength and weight of his testimony.

Second, the fact that a single batch of fryers was not marked is hardly evidence that calls into question whether "substantially all" fryers were marked. While defendants argue that plaintiff never defined what a "batch" is — and that therefore the jury had no basis to determine whether substantially all fryers were marked — Infeld ultimately testified that substantially all were marked to the best of his knowledge. The number of fryers in the single batch of unmarked fryers goes to the weight of Infeld's testimony, and is a fair topic for cross-examination. But it is not a sufficient basis to grant judgment as a matter of law.

In addition, defendants argue that the sample fryers admitted into evidence are not relevant because they were sold after July 1998. This issue is ultimately irrelevant because Mr. Infeld testified that substantially all fryers were marked, and the jury was free to credit or discredit this testimony. In any event, this argument, again, goes to the strength of plaintiff's case.

Finally, defendants argue that a sample label provided by SEB did not have the proper marking. This is, again, an issue of the strength of the evidence in the case. The jury was free to consider this argument, but it ultimately found for the plaintiff. The strength of the parties' cases is not an appropriate basis for judgment as a matter of law.

Appendix B

B. Inadequate Production of Documents Related to Patent Markings

Defendants argue that the court should grant judgment on SEB's claims concerning Pentalpha's deep fryers sold before July 10, 1998 because of the failure of SEB to produce documents concerning patent markings on T-Fal's deep fryers. Defendants' motion on this basis is denied.

Pentalpha originally moved *in limine* to exclude SEB from offering evidence regarding patent markings because SEB had not produced documents concerning those markings. The Court denied the *in limine* motion because SEB's counsel represented to the Court that no documents existed other than the one page produced. Based on that representation, the Court allowed SEB to introduce the testimony.

At trial, in response to a question from defense counsel regarding how the factory will know what to print on the stickers it places on the fryers, Mr. Infeld testified that the factory will have a "list which shows them exactly what needs to be put on." (Tr: 143:9- 10). Pointing to other testimony as well, defendants argue that this indicates that Infeld was aware of a "list" concerning patent markings, which was never produced.

Plaintiff maintains there are no more documents despite a recent search following the first oral argument on this motion. While the parties dispute what Infeld meant by this testimony — indeed still dispute as to

whether additional documents exist — the Court believes that the current dispute is insufficient to grant judgment to defendants. The parties engaged in discovery for years prior to trial, yet defendants waited until the eve of trial to raise the issue of the adequacy of plaintiff's production on patent markings. Further, defendants could have asked Infeld to clarify during his examination what he meant by the "list" that he referred to. Or, defendants could have renewed its motion to preclude plaintiff from introducing evidence on patent markings — giving the Court or SEB an opportunity to seek clarification from Mr. Infeld. Defendants declined to do so. In short, defendants did not adequately raise the issue of plaintiff's production during discovery, nor raise an issue regarding Infeld's testimony during trial, and the Court is disinclined to disturb the jury's verdict at this point. Defendants' motion on this basis is therefore denied.

C. 35 U.S.C. § 271(a) — Sales and Offers to Sell

Defendants' motion for judgment on plaintiff's § 271(a) claims is denied. Defendants state that SEB admitted that all the sales of deep fryers occurred F.O.B. Hong Kong or China. (Tr: 856:1-6). Therefore, Defendants argue that, as a matter of law this is not a "sale" in the United States. *See MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1375 (Fed. Cir. 2005) ("[I]t is well-established that the reach of section 271(a) is limited to infringing activities that occur within the United States."); *Rotec Indus. v. Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed.

Cir. 2000). In *MEMC*, the Federal Circuit granted summary judgment on the issue of sales in the United States for products which were delivered F.O.B. Tokyo because these did not constitute sales within the United States. However, the Court noted several other factors in deciding that the sale had not occurred within the United States. *See* 420 F.3d 1376-77. The Court also specifically noted that "simply because an article is delivered 'free on board' outside of the forum, a 'sale' is not necessarily precluded from occurring in the forum." *Id.* at 1377. In addition, defendants' argument that the Court did not instruct the jury that the sale must also occur in the United States before an offer to sell in the United States is actionable is moot because according to the verdict, the sale did occur in the United States. Defendants' motion for judgment on plaintiffs § 271(a)claims is therefore denied.

D. 35 U.S.C. § 271(b) — Inducement

The jury found that defendants induced infringement under § 271(b). Defendants argue that there was insufficient evidence that Defendants were aware of the SEB patent, and therefore they could not have induced infringement.

"In order to succeed on a claim of inducement, the patentee must show, first that there has been direct infringement," and "second, that the alleged infringer knowingly induced infringement and possessed specific intent to encourage another's infringement." *MEMC*, 420 F.3d at 1378; *Minn. Mining & Mfg. Co. v. Chemque*,

Inc., 303 F.3d 1294, 1304-05 (Fed. Cir. 2002) (citations omitted). "While proof of intent is necessary, direct evidence is not required; rather, circumstantial evidence may suffice." *MEMC*, 420 F.3d at 1378; *Water Techs. Corp v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988). However, an inducer must have actual or constructive knowledge of the patent. *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1305 (Fed. Cir. 2006); *see also id.* at 1311 (Michel, C.J., concurring). "It must be established that the defendant possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement. The plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements." *Id.* at 1306.

Defendants argue that plaintiff's evidence that John Sham "set up" defendants' counsel Mark Levy to fail to find the SEB patent is insufficient to establish the requisite constructive knowledge of the patent. However, contrary to defendants' argument, the jury was free to consider whether key information was not disclosed to Levy in his patent search and whether that information would have allowed defendants to discover the patent. Moreover, this evidence was sufficient to establish "specific intent and action to induce infringement". *Id.* at 1305. Accordingly, defendants' motion for judgment is denied.

Appendix B

E. Re-Designed Deep Fryer

Defendants argue that the court should enter judgment for the defendants on defendants' re-designed deep fryer because there was no evidence to allow the jury to determine that a person of reasonable skill in the art of designing deep fryers would have considered the differences between the redesigned deep fryer and the SEB patent as "insubstantial".

A finding of infringement under the doctrine of equivalents requires a showing that the difference between the claimed invention and the accused product or method was insubstantial or that the accused product or method performs the substantially same function in substantially the same way with substantially the same result as each claim limitation of the patented product or method." *AquaTex Indus. v. Techniche Solutions*, 479 F3d 1320, 1326 (Fed Cir. 2007).

Defendants argue that SEB's patent expert did not offer an opinion on how a person skilled in the art would perceive the changes. They argue that the expert, Mr. Charles Van Horn, was not skilled in the art, had no experience with persons or companies that made deep fryers, and could not remember having examined a patent concerning deep fryers while working at the PTO. However, Mr. Van Horn testified that he was testifying from the perspective of someone skilled in the art. (Tr: 474:10-12). The Court overruled the objection to his testimony as an expert and allowed his testimony with respect to the issues relevant to the lawsuit.

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(Tr: 479:24 — 480:2) Any other question regarding the basis of Van Horn's testimony would go to the credibility and weight of the testimony. While appropriate subjects for cross-examination, they are an insufficient basis to grant judgment as a matter of law.

F. Willful Infringement

Defendants argue that they are entitled to judgment as matter of law on the issue of willful infringement by the redesigned deep fryer. As an initial matter, it does not appear that Defendants raised this issue in their pre-verdict motion for judgment as a matter of law and it is therefore denied.[1] *Taylor v. National R.R. Passenger Corp.*, 868 F. Supp. 479, 482 (S.D.N.Y. 1994) ("The initial motion, brought before submission of the case to the jury, is a prerequisite to any motion brought after trial.")

On the merits, while defendants obtained an opinion letter from Peter Canelias, plaintiff presented evidence to impeach the quality and credibility of the letter. First, the claim construction used by Mr. Canelias did not comport with the claim construction by this Court. (Tr: 685:8-687:6). There was also evidence that the Mr. Canelias possibly gave an opinion that Mr. Sham wanted

1. The Court notes that in December 2006, Rule 50 was amended so as to eliminate the requirement that a motion be made at the close of all the evidence, effectively overruling the relevant portions of the cases cited. However, the law in this Circuit during the relevant time period for this motion required such a motion at the close of evidence, with few exceptions.

to hear. (Tr: 687:7 - 689:4). There was also evidence indicating that Mr. Sham did not rely on Canelias's opinion, for example because Pentalpha had finalized the plans for the deep fryer prior to obtaining the opinion letter. (Tr: 402:5-403:23). *See Stryker Corp. v. Davol Inc.*, 234 F.3d 1252, 1259 (Fed. Cir. 2000). In short, the jury was free to consider the opinion letter as evidence of a lack of willfulness. But it was also free to discount that evidence based on other evidence in the record. Judgment as a matter of law is therefore inappropriate.

G. Reduction of Damages Award

Since all infringers are jointly and severally liable, a settlement by one infringer reduces the recovery from the others. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 503, 84 S. Ct. 1526, 12 L. Ed. 2d 457, 1964 Dec. Comm'r Pat. 760 (1964); *see also Zenith Radio Corp. v. Hazeltine Research, Inc.*, 401 U.S. 321, 348, 91 S. Ct. 795, 28 L. Ed. 2d 77 (1971); *Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc.*, 246 F.3d 1336, 1361 (Fed. Cir. 2001) ("A party that induces or contributes to infringement is jointly and severally liable with the direct infringer for all general damages.") Courts have generally held that parties may only obtain up to a single full recovery for damages from infringement. *See Glenayre Elecs., Inc. v. Jackson*, 443 F.3d 851, 864 (Fed. Cir. 2006) (holding that a patentee could not sue users for damages because actual damages covering the use of the product had already been recovered from the manufacturer); *Shockley v. Arcan*,

Inc., 248 F3d 1349, 1364 (Fed. Cir. 2001) ("Each joint tort-feasor is liable for the full amount of damages (up to a full single recovery) suffered by the patentee.").

"[I]n determining whether there has been an impermissible double recovery of damages, the inquiry focuses on whether the damages issue arose from the same set of operative facts." *Aero Prods. Intl, Inc. v. Intex Rec. Corp.*, 466 F3d 1000, 1018 (Fed. Cir. 2006). The parties agree that plaintiff recovered $ 2,000,000 from Sunbeam in settlement of a related lawsuit for the sale of up to 350,000 units. The record indicates that Pentalpha sold Sunbeam 312,736 units. A reduction of the jury's award to avoid double recovery is therefore appropriate. In addition, this reduction should occur prior to any damages enhancement for willful infringement because SEB has already agreed to settle its claims with respect to the sale of those fryers. Any trebling of damages from an injury for which SEB has recovered would result in a windfall to SEB. Accordingly, the jury's award of $ 3,600,000 on this claim is reduced to $ 1,600,000.

II. Defendants' Motion for a New Trial

Defendants also move more [sic] a new trial on various grounds. "The standard for granting a new trial is less stringent than that for judgment as a matter of law. On a motion for new trial the judge may set aside the verdict even though there is substantial evidence to support it." *Am. Nat'l Fire Ins. Co. v. Mirasco, Inc.*, 451 F. Supp.2d 576, 582 (S.D.N.Y. 2006) (internal

quotations and citations omitted). "Still, a new trial may only be granted if the court is convinced that the jury has reached a seriously erroneous result, or that the verdict is against the weight of the evidence, making its enforcement a miscarriage of justice." *Id. See also Farrior v. Waterford Bd. of Educ.*, 277 F.3d 633, 635 (2d Cir. 2002) ("[A] decision is against the weight of the evidence, for purposes of a Rule 59 motion, if and only if the verdict is seriously erroneous or a miscarriage of justice.") A jury's verdict should rarely be disturbed. *Farrior*, 277 F.3d at 635.

A. Reasonable Royalty Rate

Defendants move for a new trial on the basis that the evidence does not support the reasonable royalty award by the jury. The award by the jury was $ 11.52 per fryer for sales to Sunbeam, $ 11.34 for each fryer sold to Finger Hut, and $ 10.98 for each fryer sold to Montgomery Ward. Defendants request a new trial on damages, or alternatively, the Court to remit the award to $ 5.71 per fryer for the first 350,000, and then $ 9.71 or $ 10.00 after that. Alternatively, Defendants request a royalty rate of $ 9.71 or $ 10.00 per fryer. Defendants' motion is denied.

"The jury's award of damages is entitled to deference. Specifically, the jury's damages award must be upheld unless the amount is grossly excessive or monstrous, clearly not supported by the evidence, or based only on speculation or guesswork." *Monsanto Co. v. Ralph*, 382 F.3d 1374, 1383 (Fed. Cir. 2004) (internal

quotes omitted); *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1580 (Fed. Cir. 1992). The moving party has the burden of showing that "the award is, in view of all the evidence, either so outrageously high or so outrageously low as to be unsupportable as an estimation of a reasonable royalty." *Monsanto*, 382 F.3d at 1383; *Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co.*, 895 F.2d 1403, 1406 (Fed. Cir. 1990). The Federal Circuit reviews damages awards by a jury for substantial evidence. *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1108 (Fed Cir. 1996).

Defendants' argues [sic] that a high hypothetical negotiation between the parties would have resulted in a far lower royalty because: 1) SEB accepted a $ 5.71 per fryer figure in their settlement with Sunbeam for the first 350,000 fryers; 2) SEB accepted $ 10.00 per fryer after the first 350,000; 3) SEB agreed to pay 50% of any damage award over $ 4.00 to Sunbeam — adding the $ 4.00 to the $ 5.71 SEB obtained in its settlement with Sunbeam, means that SEB considers anything above $ 9.71 a windfall — so much so that it has agreed to pay Sunbeam half of anything above that number; and 4) Pentalpha would not have agreed to pay above $ 10.98 per deep fryer because if it did, it would not have made any profit.

Defendants' arguments regarding SEB's settlement with Sunbeam are unconvincing. A settlement in litigation is based many different criteria, including for example, potential defenses available to Sunbeam, and other litigation risks that the Court need not speculate

on. In addition, in cases where more than one defendant is sued, parties that settle early often get better deals. As result, the particulars of the Sunbeam settlement are insufficient to overcome the presumption of upholding the jury's award.

With respect to a royalty rate being higher than the gross margin, there is no *per se* rule requiring that the royalty rate allow the infringer to have turned a profit. *See Monsanto*, 382 F.3d at 1384 ("[A]lthough an infringer's anticipated profit from use of the patented invention is among the factors to be considered in determining a reasonable royalty, the law does not require that an infringer be permitted to make a profit."). The Court in *Monsanto* also noted that a patentee has every right not to allow anyone else to use his patent, and a requirement that a hypothetical negotiation result in a profit for the infringer would effectively allow infringers to circumvent as patentee's right to exclude parties from using their patent. *Id.* This is especially true where the patent holder chose not to license their patent. *See id*; Tr: 125:8-219. Accordingly, defendants' motion for a new trial on the issue of a reasonable royalty, or in the alternative to remit the award, is denied.

B. Weight of the Evidence on Issues of Liability

Defendants also argue that the verdict was against the weight of the evidence on four issues of liability: 1) infringement by the original deep fryers; 2) whether the fryers sold before July 10, 1998 were marked;

3) whether the differences between the modified deep fryer and the patent were substantial (i.e. whether the modified fryer infringed under the doctrine of equivalents); 4) willful infringement. Defendants make no argument with regards to why the weight of the evidence was such that the verdict is seriously erroneous or a miscarriage of justice, and as discussed already with respect to defendants' Rule 50 motion, there is substantial evidence supporting the jury's findings on these issues. Defendants therefore have not met their burden of establishing serious error or a miscarriage of justice and their motion is therefore denied.

C. Improper Closing Arguments of SEB's Counsel

Finally, defendants move for a new trial based on allegedly improper arguments at closing. Their motion is denied.

"Although trial courts possess broad discretion to determine when the conduct of counsel is so improper as to warrant a new trial, attorneys also require latitude in formulating their arguments." *Smith v. National R. Passenger Corp.*, 856 F.2d 467, 470 (2d Cir. 1988) (internal quotations and citations omitted); *See also Patterson v. Balsamico*, 440 F.3d 104, 119 (2d Cir. 2004). "Not every improper or poorly supported remark made in summation irreparably taints the proceedings; only if counsel's conduct created undue prejudice or passion which played upon the sympathy of the jury, should a new trial be granted." *Smith v. National R. Passenger*

Corp., 856 F.2d at 470 (internal, quotations and citations omitted); *see also Patterson*, 440 F.3d at 119. "Because attorneys are given wide latitude in formulating their arguments to the jury, rarely will an attorney's conduct so infect a trial with undue prejudice or passion as to require reversal." *Patterson*, 440 F.3d at 119 (internal quotation marks omitted); *Reilly v. Natwest Mkts. Group Inc.*, 181 F.3d 253, 271 (2d Cir. 1999).

Defendants identify four improper arguments made to the jury: 1) that SEB's counsel argued that the reasonable royalty should reflect the lost profit to SEB, despite the fact that the Court had ruled that a claim for lost profits could not be submitted to the jury because there was no evidence as to what SEB actually sold the fryers for; 2) that SEB's counsel improperly argued to the jury that the failure of defendants to seek an opinion of counsel is evidence of willful infringement; 3) that SEB's lawyer improperly compared T-Fal's commercial product to the Pentalpha product -- as opposed to comparing the patent claims to the product; and 4) SEB's counsel improperly appealed to the passions of the jury by suggesting that Pentalpha does not do business in the U.S. to avoid paying taxes in the U.S.

With respect to lost profits, the Court ruled that they had not been shown with sufficient exactness to allow a claim for lost profits. However, this does not mean that the jury could not consider SEB's *expectations* of profits as part of a hypothetical. negotiation. *See Georgia-Pacific Corp. v. United States*

Plywood Corp., 318 F.Supp. 1116, 1120 (S.D.N.Y. 1970) (holding that one of the factors relevant to a reasonable royalty is "[t]he established profitability of the product made under the patent; its commercial success; and its current popularity.").

With regards to willful infringement the federal circuit has held that the court may not instruct the jury that they are to draw an adverse inference or presumption as a matter of law. *See Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1345 (Fed. Cir. 2004). However, nothing in *Knorr-Bremse* forbids a jury to consider whether an infringer sought the advice of counsel in considering whether, under the totality of the circumstances, infringement has been willful. *See id.* at 1342 ("Determination of willfulness is made on consideration of the totality of the circumstances".); *see also Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1369 (Fed. Cir 2006) (rejecting argument that, under *Knorr-Bremse*, "the district court could not consider whether [defendant] obtained an opinion of counsel in evaluating whether it discharged its duty of due care.").

Defendants' third argument is without merit. SEB clearly compared the infringing products to the patent (e.g. Tr: 917:25-921:6). The reference to the T-Fal commercial product was an argument that the T-Fal wouldn't avoid infringement of the claims because of minor differences, and the defendants' product therefore also couldn't avoid infringement of the claims because of those same minor differences. In addition,

any error here is insufficient to warrant setting aside the jury's verdict and granting a new trial.

With respect to the final error charged — the foreign status of the defendants — it appears that this argument was made in response to the defendants' defense that they were not doing business in the U.S. In any event, to the extent that this argument was inappropriate it is insufficient to warrant setting aside the jury's verdict and granting a new trial.

III. Defendants' Motion for Judgment On the Basis of Prosecution History Estoppel

The jury found that the modified deep fryer, which used blocks (or "ring segments") rather than rings, infringed the '312 patent under the doctrine of equivalents. Defendants move for judgment on this issue on the basis of prosecution history estoppel.[2] Defendants' motion is denied.

Prosecution history estoppel is a question of law. *Ranbaxy Pharm. Inc. v. Apotex, Inc.*, 350 F.3d 1235, 1240 (Fed. Cir. 2003). Under the doctrine, a patentee's decision to narrow a claim during patent prosecution is presumed to be a disclaimer of the territory between the original claim and the amended claim. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co. Ltd.*, 535 U.S. 722, 740, 122 S. Ct. 1831, 152 L. Ed. 2d 944 (2002);

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2. Defendants originally moved *in limine* on this issue before trial, but a decision was deferred until after the verdict.

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Research Plastics, Inc. v. Fed. Packaging Corp., 421 F.3d 1290, 1298 (Fed. Cir. 2005) ("A narrowing amendment made to avoid prior art creates a presumption that the patentee surrendered the territory between the original claims and the amended claims."). Estoppel also applies in the case of arguments made to the patent examiner rather than amendments made in response to the patent examiner's actions. *See Glaxo Wellcome, Inc. v. Impax Labs. Inc.*, 356 F.3d 1348, 1357 (Fed. Cir. 2004). However, "[f]or an estoppel to apply, such assertions in favor of patentability must 'evince a clear and unmistakable surrender of subject matter.'" *Pharmacia & Upjohn Co. v. Mylan Pharms., Inc.*, 170 F.3d 1373, 1377 (Fed Cir. 1999); *Litton Sys., Inc. v. Honeywell, Inc.*, 140 F.3d 1449, 1458 (Fed. Cir. 1998).

Defendants argue that in prosecuting its patent before the U.S. Patent and Trademark Office ("PTO"), SEB argued that its invention only applied to a deep fryer in which the "ring" completely closed off the air space between the pan and the skirt. *See Dunnegan Declaration*, Ex. E at S000094-96. This argument was used to distinguish the application at issue from the prior art — namely U.S. Patent No. 4,672,179 ("the Onishi Patent") and Spanish Utility Model 290,283 ("the Spanish Utility Patent"). Defendants now argue that, since SEB's expert admitted at trial that the redesigned deep fryer does not completely close off the air space between the pan and the skirt, defendants' product could not infringe the patent as a matter of law under the doctrine of equivalents.

Defendants' argument is precluded by this Court's earlier decision on this issue. "Under the doctrine of law of the case, 'a legal decision made at one stage of litigation, unchallenged in a subsequent appeal when the opportunity to do so existed, becomes the law of the case for future stages of the same litigation, and the parties are deemed to have waived the right to challenge that decision at a later time.'" *See North River Ins. Co. v. Philadelphia Reinsurance Corp.*, 63 F.3d 160, 164 (2d Cir. 1995). "Because there is a strong policy favoring finality . . . a court should be loathe to revisit an earlier decision in the absence of extraordinary circumstances such as where the initial decision was clearly erroneous and would work a manifest injustice." *Id.* at 165 (internal quotations and citations omitted). On March 20, 2001, then District Judge Barrington D. Parker, Jr. issued a decision on plaintiff's motion for a supplemental preliminary injunction regarding the sale of the modified deep fryer.[3] *See SEB S.A. v. Montgomery Ward & Co., Inc.*, 137 F.Supp.2d 285 (S.D.N.Y. 2001). In that decision, Judge Parker rejected the very arguments defendants currently make. Specifically, Judge Parker held that: 1) in the modified fryer, defendants have replaced the insulating ring with a series of insulating ring segments; 2) the use of ring segments, as opposed to the use of a continuous ring, do [sic] not change the essential nature of the device; 3) independent claim 1 does not contain any requirement that the ring functions to seal the air space; 4) there is no prosecution history estoppel based

3. Judge Parker has since been appointed to a seat on the Second Circuit.

on the arguments made to the PTO regarding the Spanish Utility Patent because they were not directed to the claim at issue in this case. *Id.* at 287-89.

Defendants' arguments regarding factual errors in this Court's earlier ruling are unconvincing. Whether claim 1 was amended, or repealed is ultimately irrelevant to the Court's decision that prosecution history estoppel did not apply because the arguments made to the PTO were directed at claim 13, not claim 1. Indeed Judge Parker specifically found that "independent claim 1 does not contain any requirement that the ring functions to seal the air space." *SEB*, 137 F.Supp.2d at 288. Defendants have therefore failed to show that the initial decision was clearly erroneous and would work a manifest injustice.

Further, the Supreme Court's decision in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, does not invite this Court to re-visit its earlier decision. 535 U.S. 722, 122 S. Ct. 1831, 152 L. Ed. 2d 944 (2002). In *Festo*, the Supreme Court reversed the Federal Circuit, and narrowed the defense of prosecution history estoppel. The Federal Circuit had held that prosecution history estoppel is a complete bar to the doctrine of equivalents, regardless of the purpose of the amendment. The Supreme Court reversed, applying a more flexible "fair interpretation" standard for determining what subject matter was surrendered by the amendment or argument. *Id.* at 737-38. Judge Parker's decision, which holds that estoppel does not apply, is not undercut by a ruling by the Supreme Court which actually further limits the doctrine's applicability.

Accordingly, under the law of the case doctrine, this Court will not disturb its earlier decision.

IV. Plaintiff's Motions

A. Enhanced Damages

The jury found for SEB for direct infringement and inducement of infringement and awarded damages of $ 4,650,000. The jury also found that Pentalpha's infringement had been willful. Plaintiff moves to enhance damages on this basis.

Under 35 U.S.C. §284, damages may be enhanced up to three times the compensatory award. An award of enhanced damages for infringement, as well as the extent of the enhancement, is committed to the discretion of the trial court. *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992). While no statutory standard dictates the circumstances under which the district court may exercise its discretion, the Federal Circuit has approved such awards where the infringement is willful. *Id.* On the other hand, a finding of willful infringement does not mandate that damages be enhanced, much less mandate treble damages. *Id.*; *Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 543 (Fed. Cir. 1990). "The paramount determination in deciding to grant enhancement and the amount thereof is the egregiousness of the defendant's conduct based on all the facts and circumstances." *Read*, 970 F.3d at 826. *See Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1125 (Fed. Cir. 1987). The court must consider factors

that render defendant's conduct more culpable, as well as factors that are mitigating or ameliorating. *Read*, 970 F.3d at 826.

Factors considered by courts in determining when an infringer has acted in such bad faith as to merit an increase in the damages awarded against him include: 1) whether the infringer deliberately copied the ideas or design of another; 2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; 3) the infringer's behavior as a party to the litigation; 4) the defendant's size and financial condition; 5) closeness of the case; 6) duration of defendant's misconduct; 7) remedial action by the defendant; 8) defendant's motivation for harm; and 9) whether defendant attempted to conceal its misconduct. *Id.* at 826-27.

First the Court notes that evidence in the record indicates that employees of Pentalpha purchased a SEB fryer in Hong Kong for the purposes of market research, and presented no evidence of independent design (e.g. design drawings). (Tr: 242:18-24; 339:12-340-13). Indeed, there was testimony that the engineers simply took a T-Fal fryer and made cosmetic changes to it. (Tr: 609:25-610:13; 611:13-613:24).

Second, the court notes that evidence in the record indicates that Pentalpha knew that it had copied a SEB fryer, but never told this to its attorney, Mr. Levy who was performing a patent search with respect to the

original deep fryer. (Tr: 345:4-20; Tr: 414:20-416:20). There was also evidence that Pentalpha had finalized the plans for its modified deep fryer prior to obtaining the opinion letter of its counsel, Mr. Canelias. (Tr: 402:5-403:23).

Third, the Court does not believe this was a particularly close case. The Court granted judgment to the plaintiff on many of defendants' affirmative defenses. (Tr: 716:1-717:1). The case law was also contrary to defendants' defense that the sales in this case were not infringing because they were "F.O.B. China". *See MEMC*, 420 F.3d at 1377 ("simply because an article is delivered 'free on board' outside of the forum, a 'sale' is not necessarily precluded from occurring in the forum.")

Fourth, as discussed already, this court does not believe that plaintiff's counsel's argument regarding willfulness and defendants' failure to seek the advice of counsel was prohibited by *Knorr-Bremse*. It therefore does not preclude enhanced damages in this case.

Fifth the court notes that upon issuance of a preliminary injunction forbidding the sale of the original deep fryer, defendants developed a modified deep fryer with few changes, which infringed on the '312 patent under the doctrine of equivalents. This modification required additional motion practice by plaintiff, who needed to seek a supplemental injunction against the sale of the modified deep fryer in order to avoid further infringement of its patent rights.

Accordingly, and upon consideration of all other relevant factors, this court believes enhanced damages are appropriate. In its discretion, and in consideration of the high damage award in this case relative to the defendants' size, this Court elects to award damages two times the jury award.

B. Attorneys' Fees

Under 35 U.S.C. § 285, "the court in exceptional cases may award reasonable attorney fees to the prevailing party." Whether a case is exceptional is a determination of fact which is reviewed for clear error. *L.A. Gear, Inc. v. Tom McAn Shoe Co.*, 988 F.2d 1117, 1128 (Fed. Cir. 1993). A decision whether to award attorneys' fees, once it is found to be exceptional, is committed to the discretion of the trial judge. *Modine Mfg. Co.*, 917 F.2d at 543. Bad faith litigation, willful infringement, or inequitable conduct are among the circumstances which may make a case exceptional. *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1579 (Fed Cir. 1996). Indeed, an express finding of willful infringement is a sufficient basis for classifying a case as "exceptional". *Modine Mfg. Co.*, 917 F.2d at 543. Because the jury expressly found willful infringement, and in consideration of the various facts in the record to support this finding, the Court holds that the current case is an exceptional case within the meaning of § 285. Accordingly, an award of attorneys' fees is appropriate.

With regards to the particulars of the fee submission, the Court agrees with defendants that

attorneys' fees from the Sunbeam action in the District of New Jersey are an inappropriate for an award from this Court. Fees associated with that action should have been sought from that Court, or in settlement negotiations of that action.

The Court agrees with plaintiff that fees paid to Mr. Didier Martin and Mr. Gregers Infeld are appropriate. Mr. Martin was retained as an outside legal consultant and defendants have provided no adequate basis to deny plaintiff payment of his fees. Mr. Infeld was also retained as an outside consultant and defendants provide no specific objection to his fees other than the conclusory assertion that they are unreasonable. Finally, contrary to defendants' assertion, plaintiff is entitled to reasonable expenses incurred by plaintiff's counsel during the prosecution of this case.

C. Pre-Judgment Interest under 35 U.S.C. § 284

"[P]rejudgment interest should be awarded under § 284 absent some justification for withholding such an award." *GM Corp. v. Devex Corp.*, 461 U.S. 648, 657, 103 S. Ct. 2058, 76 L. Ed. 2d 211 (1983); *Flanagan v. Continental Apparel Corp.*, No. 94 Civ. 9338, 1996 U.S. Dist. LEXIS 12102, *12 (S.D.N.Y. August 20, 1996). Defendants do not dispute that prejudgment interest is appropriate here, but argue that the statutory post-judgment interest rate under 28 U.S.C. § 1961(a) is appropriate. While plaintiff has not submitted evidence of the rate at which it borrows money, the court believes that the prime interest rate provided by Federal Reserve

compounded annually is provides fair compensation to plaintiff *Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 939 F.2d 1540, 1545 (Fed. Cir. 1991) ("[I]t is not necessary that a patentee demonstrate that it borrowed at the prime rate in order to be entitled to prejudgment interest at that rate."). However, because the jury's judgment is reduced by $ 2,000,000 to reflect plaintiff's settlement with Sunbeam, plaintiff is instructed to re-submit its calculation regarding the amount of prejudgment interest due.

D. Permanent Injunction

SEB requests entry of a permanent injunction. Defendants' concede that a permanent injunction is warranted, and do not oppose the language of SEB's proposed injunction for the most part. Defendants do argue that any injunction should preserve Pentalpha's claims against SEB for liability up to the amount of the bond in the event Pentalpha ultimately prevails. However, damage to Pentalpha is moot because the jury ultimately found infringement. In any event, should Pentalpha prevail on appeal, any claims against SEB will be preserved. Therefore, no modification to SEB's proposed permanent injunction is necessary.

III. Conclusion

Defendants' renewed motion for judgment as a matter of law is granted in part. Defendants' motion for a new trial is denied. Defendants' motion for judgment on the issue of prosecution history estoppel is denied. Plaintiff's motion for enhanced damages is granted in part.

The jury's award of $ 4,650,000 is reduced to $ 2,650,000 to reflect SEB's settlement with Sunbeam. This Court awards an additional $ 2,650,000 in enhanced damages in light of the jury's finding of willful infringement. The Court awards attorneys' fees of $ 932,123.53. The Court awards pre judgment of interest at the prime rate. Plaintiff is instructed to re-submit a calculation of the amount of pre judgment interest owed in light of this Court's reduction of the jury's award to $ 2,650,000.

Case closed.

It is so ordered.

Dated: White Plains, New York
October 9, 2007

s/ Stephen C. Robinson
Stephen C. Robinson, U.S.D.J.

APPENDIX C — ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DENYING PETITION FOR REHEARING DATED MARCH 25, 2010

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2009-1099, -1108, -1119

SEB S.A.,

Plaintiff/Counterclaim Defendant-Cross Appellant,

and

T-FAL CORPORATION,

Counterclaim Defendant,

v.

MONTGOMERY WARD & CO., INC.,

Defendant,

and

GLOBAL-TECH APPLIANCES, INC.,

Defendant-Appellant,

and

PENTALPHA ENTERPRISES, LTD.,

Defendant-Counterclaimant-Appellant.

Appendix C

Appeals from the United States District Court for the Southern District of New York in 99-CV-9284, Judge Stephen C. Robinson.

ORDER

A petition for rehearing *en banc* having been filed by the Appellants,* and the matter having first been referred as a petition for rehearing to the panel that heard the appeal, and thereafter the petition for rehearing *en banc* having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing *en banc* be, and the same hereby is, DENIED.

The mandate of the court will issue on April 1, 2010.

FOR THE COURT,

s/ Jan Horbaly
Jan Horbaly
Clerk

Dated: 03/25/2010

* The court granted leave to American Intellectual Property Law Association and The Federal Circuit Bar Association to file a brief *amici curiae* in support of Appellants' petition for rehearing *en banc*.

OPPOSITION BRIEF

No. 10-6

IN THE

Supreme Court of the United States

GLOBAL-TECH APPLIANCES, INC., *et al.*,

Petitioners,

v.

SEB S.A.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

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RULE 29.6 DISCLOSURE STATEMENT

Respondent, SEB S.A., a publicly-held French corporation, has no parent company. No publicly owned company owns 10% or more of the stock of SEB S.A.

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594 F.3d 1360 (Fed. Cir. 2010) ..... *passim*

INTRODUCTION

SEB S.A. ("SEB") respectfully submits that the Petition of Global-Tech and Pentalpha ("Pentalpha") should be denied because the decision of the Court of Appeals for the Federal Circuit in *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360 (Fed. Cir. 2010), does not warrant review by this Court.

There is no justiciable controversy requiring review by this Court because a decision will not affect the outcome of this case. Pentalpha was found liable for both direct infringement and inducing infringement, and its Petition addresses only inducing infringement. At most, a reversal of the Federal Circuit's decision would require a retrial on damages. *See, Herb v. Pitcairn*, 324 U.S. 117, 125, 65 S. Ct. 459, 463 (1945) (the Court will not review a judgment resting on independent grounds).

Even if there were a justiciable controversy worthy of review (which there is not), the Federal Circuit's decision in *SEB* should be affirmed because it advances the Patent Law by establishing a flexible standard to determine whether a defendant had knowledge of a patent sufficient to induce infringement of that patent. By adopting a flexible standard, the Federal Circuit closed a loophole which may have allowed manufacturers to avoid liability for inducement by deliberately ignoring known legal risks. The "deliberate indifference" subtest used by the Federal Circuit is well grounded in authority and consistent with existing authority, including this Court's decision in *Grokster*.[1]

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1. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 922-23, 125 S. Ct. 2764, 2772 (2005).

By establishing a standard that provides courts with flexibility for addressing varied factual circumstances, the Federal Circuit's approach is consistent with the approach taken by this Court in its recent decisions in *Bilski* and *KSR*, both of which seek to create a balance between flexibility and certainty.[2] Therefore, this is not an appropriate case for this Court's review, and the Petition for a Writ of Certiorari should be denied.

REASONS FOR DENYING THE PETITION

1. There Is No Justiciable Controversy For This Court To Resolve.

The jury in this case found Pentalpha liable for both direct infringement and inducement to infringe. The verdict form, however, contains a single damage award. The Federal Circuit affirmed the verdict under both theories of liability. Therefore, there was no need to address the damage award. *SEB*, 594 F.3d at 1374.

In its Petition, Pentalpha seeks reversal of the portion of the verdict finding liability only under the theory of inducement. Even if that portion of the verdict is reversed (although it should not be reversed), Pentalpha will remain liable for direct infringement.[3]

2. *Bilski v. Kappos*, ___ U.S. ___, 130 S. Ct. 3218 (2010); *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398, 127 S. Ct. 1727 (2007).

3. Pentalpha suggests that the Federal Circuit improperly affirmed the verdict of direct infringement because Pentalpha's sale of deep fryers to American retailers with the term "FOB China" occurred outside the United States. The Federal Circuit dismissed that argument. *SEB*, 594 F.3d at 1375. This issue was not presented for review.

Therefore, any decision by this Court will not affect the ultimate issue of Pentalpha's liability. At most, the matter would be remanded to the district court for a retrial on damages. Since any decision by this Court would not change the substantive outcome of this case, the case is not properly before this Court and Pentalpha's Petition should be denied.

II. The Federal Circuit's "Deliberate Indifference" Sub-Test Is A Practical And Workable Test That Provides Courts With Flexibility In Assessing An Infringer's Knowledge Of A Patent.

A. The "Deliberate Indifference" Sub-Test Is Well-Grounded In Precedent.

Inducement to infringe a patent requires proof of specific intent, i.e., that an infringer "knew or should have known his actions would induce actual infringements." *DSU Medical Corporation v. JMS Co., Ltd.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006). That proof may be presented by direct or circumstantial evidence. *Insituform Technologies, Inc. v. Cat Contracting, Inc.*, 161 F.3d 688, 695 (Fed. Cir. 1998), *cert. denied*, 526 U.S. 1018 (1999).

In *DSU*, the Federal Circuit *en banc* reconciled a prior conflict in the law and held that a plaintiff can demonstrate inducement of patent infringement by showing that the infringer "knew or should have known his actions would induce actual infringements." *DSU*, 471 F.3d at 1304. The Federal Circuit held that knowledge of the patent is an included element of this test:

> The requirement that the alleged infringer knew or should have known his actions would

> induce actual infringement necessarily includes the requirement that he or she knew of the patent.

Id. at 1304.

However, the Federal Circuit declined at that time to articulate a standard for this lesser included "knowledge of the patent" element of proof. *Id.* at 1311 ("Moreover, we write to make clear that we do not set forth a new standard here as to what satisfies the 'knowledge of the patent' requirement in cases brought under 35 U.S.C. § 271(b).") (Michel and Mayer, C.J., concurring).

SEB presented an opportunity for the Federal Circuit to consider a standard for the lesser included element of "knowledge of the patent." The Federal Circuit clearly distinguished the test for knowledge of acts of inducement from the sub-test for the lesser included element of knowledge of the patent. The Court stated that the standard in *DSU* addresses "the target of the knowledge," while the standard in *SEB* addresses "the nature of that knowledge." *SEB*, 594 F.3d at 1376.

The Federal Circuit recognized that direct evidence of knowledge of a patent rarely exists and confirmed that a claim for inducement is viable even without such direct evidence. *SEB*, 594 F.3d at 1377. Therefore, the Federal Circuit adopted a flexible "deliberate indifference" sub-test, based on authority from other circuits that "deliberate indifference to a known risk is not different from actual knowledge, but is a form of actual knowledge." *SEB*, 594 F.3d at 1376-77 (citations

omitted). Relying on authority of this Court, the Federal Circuit confirmed that "deliberate indifference" is a subjective standard, as distinguished from an objective "should have known" standard. *SEB*, 594 F.3d at 1376, *citing*, *Farmer v Brennan*, 511 U.S. 825, 839-40, 114 S. Ct. 1970, 1980 (1994). Therefore, the "deliberate indifference" sub-test is consistent with *DSU* because it does not reduce *DSU* to a "should have known" standard. *Id.*

B. The "Deliberate Indifference" Sub-Test Gives Courts Flexibility When Addressing A Particular Class Of Infringers Who Assume Known Risks.

The "deliberate indifference" standard is directed to a particular class of infringers who adopt a "head in the sand" approach to infringement and assume a known risk that a patent may exist. In the present case, for example, Pentalpha purchased one of SEB's deep fryers in Hong Kong, brought the deep fryer into its laboratory and copied the patented features. Pentalpha had the presence of mind to seek a clearance opinion from patent counsel. Despite this deliberate conduct, Pentalpha concealed from its patent attorney the fact that it had copied material features of SEB's deep fryer. Under these circumstances, Pentalpha exercised deliberate indifference to the possibility that SEB had a patent on the features that Pentalpha copied, and Pentalpha engaged in affirmative conduct to avoid finding out. Allowing a competitor to avoid liability in this manner is a loophole that the Federal Circuit now has closed.

Pentalpha argues that the "deliberate indifference" sub-test creates uncertainty and is unworkable because it could result in liability "in virtually any situation." Pentalpha's argument is incorrect because Pentalpha has misconstrued the "deliberate indifference" sub-test. Pentalpha characterizes the test as follows:

> [T]he SEB standard allows "mere knowledge of infringing potential" to serve as the basis for liability. (Petition p. 9, citation omitted).
>
> The Federal Circuit therefore held that the mere presence of a risk that infringement could occur would constitute specific intent to infringe. (Petition p. 15).

That, however, is an overstatement of the sub-test. "Mere knowledge of infringing potential" and "risk that infringement could occur" is present in every case. The Federal Circuit's test addresses the presence of a *known* risk, not any potential risk, and the distinction is critical.[4]

Attempting to illustrate its misplaced argument, Pentalpha contends that the application of the "deliberate indifference" test would attribute knowledge of a patent in the following circumstances (Petition p. 12):

- Where the infringer does not conduct a patent search;

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4. Contrary to Pentalpha's suggestion (Petition p. 7), *amici* briefs submitted in support of Pentalpha's petition for rehearing by the Federal Circuit *en banc* did not support the particular grounds asserted by Pentalpha for its Petition. Amici took no position on how the Federal Circuit should have decided this case, or what the appropriate standard should be.

- Where the infringer conducts a patent search but does not obtain a noninfringement opinion; and

- Where the infringer conducts a patent search and obtains a noninfringement opinion, where the noninfringement opinion contains a statement by counsel that the opinion does not, and cannot, eliminate all risk, as "usually disclosed in opinions of counsel."

To the contrary, the "deliberate indifference" sub-test would not cover a defendant who assumes general, potential risk in the ordinary course of business, or a defendant who acts negligently but without knowledge of a particular risk. If a defendant does not copy the material features of a competitor's product, there may be no known risk. If a defendant fails to have counsel conduct a patent search, there may be no known risk. If a defendant conducts a patent search and obtains an opinion from patent counsel stating generally that the opinion does not, and cannot, eliminate all risk, there may be no known risk.[5]

The "deliberate indifference" sub-test for the "knowledge of the patent" element of inducement would be satisfied only when an infringer deliberately and purposefully assumes a *known* risk. Here, Pentalpha deliberately assumed a known risk because it copied

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5. For the same reasons, Pentalpha's argument that the "deliberate indifference" sub-test would impose on sellers of goods an affirmative duty to secure a noninfringement opinion for all new products (Petition pp. 17-19) is misplaced.

material features from SEB's deep fryer, it sought a clearance opinion from patent counsel and it failed to tell counsel that it had copied SEB's product.[6] The "deliberate indifference" sub-test describes a specific and separate class of infringers, such as Pentalpha, who cannot reasonably allege that they did not know of the plaintiff's patent.

By alleging that the "deliberate indifference" sub-test creates uncertainty, Pentalpha suggests that the courts should maintain a bright-line test where a plaintiff could prove "knowledge of the patent" only with direct evidence that the defendant actually knew of the patent. That, however, is not a workable test. As discussed above, evidence of actual knowledge is rarely available, and courts need a flexible test to assess inducement in those circumstances.

Indeed, if the courts were to adopt a bright-line test as Pentalpha suggests, infringers could easily avoid liability, and inducement would be virtually unprovable. A foreign manufacturer, such as Pentalpha, which copies a product for sale to U.S. retailers, and seeks a noninfringement opinion from patent counsel, could deliberately avoid learning of a patent covering that product (or deliberately avoid creating evidence of such knowledge). This is not a desired result. Courts need flexibility to close this loophole and find liability for inducement when a defendant adopts a "head in the sand" approach. The Federal Circuit's "deliberate indifference" sub-test accomplishes this purpose without

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6. As another example, an infringer assumes a known risk when it obtains advice of counsel but fails to follow that advice.

posing undue risk of liability on defendants who act in good faith and do not disregard known risks. Indeed, this test is equally certain, if not more certain, than the tests set forth by this Court in *Bilski* and *KSR*,[7] confirming that the Federal Circuit's decision does not require review.

Pentalpha argues that the Federal Circuit "conspicuously avoided articulating any standard concerning the severity of the risk of infringement necessary to find liability," and that the "deliberate indifference" sub-test could encompass acts of simple negligence (Petition pp. 9-10). To the contrary, this Court has held that "deliberate indifference entails something more than mere negligence." *Farmer v. Brennan*, 511 U.S. at 835.[8]

Indeed, the "deliberate indifference" standard accurately reflects patent law as it is practiced on a daily basis. When asked for a noninfringement opinion about a new product, patent attorneys typically ask their clients to identify any materials that were referenced in developing the new product. The "deliberate indifference" standard now creates liability for clients, such as Pentalpha, which do not make full disclosure to counsel, and particularly those who conceal the fact that they copied an existing product.

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7. *Bilski v. Kappos*, __ U.S. __, 130 S. Ct. 3218 (2010); *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398, 127 S. Ct. 1727 (2007).

8. It is illogical to equate a "should have known" negligence test to a test that requires the disregard of a "known" risk.

III. The "Deliberate Indifference" Standard Is In Harmony With Grokster.

As discussed above, according to the Federal Circuit's decision in *DSU*, inducement to infringe a patent occurs when the infringer "knew or should have known his actions would induce actual infringements," where "knowledge of the patent" is a necessary included element of proof. *DSU*, 471 F.3d at 1304. In *SEB*, the Federal Circuit established the "deliberate indifference" standard for the lesser included "knowledge of the patent" element, distinguishing "the target of the knowledge" addressed in *DSU*, from "the nature of that knowledge" addressed in *SEB*. *SEB*, 594 F.3d at 1376.

As in *DSU*, the standard for inducement set forth by this Court in *Grokster* addresses the target of the knowledge, not the nature of the knowledge. *Grokster* did not involve a "knowledge of the copyright" requirement, since the defendants in that case essentially admitted having knowledge that the infringed works were subject to copyright. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 922-23, 125 S. Ct. 2764, 2772 (2005). Therefore, the Federal Circuit's decision in *SEB* concerning the "knowledge of the patent" requirement does not conflict with *Grokster*, which has nothing to do with the "knowledge of the copyright."

CONCLUSION

Pentalpha has failed to provide any valid reason for this Court to review the Federal Circuit's decision in this case. It is clear that Pentalpha has submitted this Petition to avoid or delay paying the final judgment, not to seek clarification of the law. Accordingly, the Petition should be denied.

Respectfully submitted,

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AMICUS CURIAE BRIEF

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No. 10-6

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IN THE
Supreme Court of the United States

GLOBAL-TECH APPLIANCES, INC., *et al.*,

Petitioners,

v.

SEB S.A.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF *AMICI CURIAE* OF 26 LAW, ECONOMICS, AND BUSINESS PROFESSORS IN SUPPORT OF PETITIONERS

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Lynda J. Oswald, *The Intent Element of "Inducement to Infringe" Under Patent Law: Reflections on Grokster*, 13 Mich. Telecomm. Tech. L. Rev. 225 (2006) 6

STATEMENT OF INTEREST OF THE *AMICI CURIAE*

Amici are professors at law, economics, and business schools who specialize in intellectual property law throughout the United States, including several who have previously published on the law of inducement. Amici have no personal stake in the outcome of this case,[1] but have an interest in seeing that the patent laws develop in a way that promotes rather than retards innovation. A complete list of amici is included in Appendix A.

ARGUMENT

THE SUPREME COURT SHOULD GRANT THE PETITION FOR A WRIT OF CERTIORARI TO CLARIFY THE CULPABLE STATE OF MIND REQUIRED FOR INDUCED INFRINGEMENT LIABILITY

The treatment of the liability standard required to prove induced infringement under 35 U.S.C. § 271 in the Court of Appeals for the Federal Circuit has led to divergent case law with inconsistent formulations. For fifteen years, Federal Circuit panels disagreed amongst themselves regarding the requisite state of mind for

1. No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amici curiae* or their counsel made a monetary contribution to its preparation or submission. The parties have been given appropriate notice and have consented to the filing of this brief. Such consents are being lodged herewith.

doctrine from patent law into copyright law in *Grokster*, 545 U.S. 913, 936 (2005).

However, the Federal Circuit struggled to agree on what a defendant must specifically intend. Two directly conflicting lines of Federal Circuit cases attempted to define the culpable mental state necessary to show induced infringement under section 271(b) of the Patent Act. Rather than providing clear guidance as to lawful commercial conduct and induced infringement, the Federal Circuit produced uncertainty by creating a seemingly shifting mental state requirement for liability. In *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464 (Fed. Cir. 1990), the Federal Circuit applied a broad intent standard, requiring only "proof of actual intent to cause the acts which constitute the infringement" and not requiring any knowledge or even suspicion that the acts were subject to a patent. *Id.* at 1458. Only three months later, the Federal Circuit espoused a different formulation when it articulated a test requiring that the defendant "induced infringing acts *and* that he knew or should have known his actions would induce actual infringements" in *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990) (italics in original). In articulating this test, the *Manville* Court required two states of mind: that the defendant had knowledge of the patent, and that the defendant knew or should have known that the acts he encouraged would actually infringe that patent.

In *Grokster*, this Court stated that "mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability." *Grokster*, 545 U.S. at 936. Drawing on this

Court's teachings in *Grokster* and recognizing the conflict between the *Manville* and *Hewlett-Packard* formulations, the Federal Circuit, ruling en banc, chose to apply the higher *Manville* standard in *DSU Medical Corp.*, 471 F.3d 1293 (Fed. Cir. 2006). The en banc decision of the Federal Circuit in *DSU* theoretically resolved the conflict between the *Manville* and *Hewlett-Packard* standards for the culpable state of mind necessary to show inducement of infringement. The en banc Federal Circuit held that the "[t]he plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements" which "necessarily includes the requirement that he or she knew of the patent." *Id.* at 1304.

The deliberate indifference standard applied by the Federal Circuit in *SEB*, however, returns the issue of induced infringement to a state of confusion. The decision in *SEB* that a party can induce infringement without even knowing of the existence of a patent directly contradicts the Federal Circuit's holding to the contrary in *DSU* only four years before. Because of the long-standing conflict between Federal Circuit panels, and because even a unanimous en banc opinion by the Federal Circuit was insufficient to eliminate that conflict, the Federal Circuit cannot be counted on to resolve the conflicts in its case law on this issue. Accordingly, Supreme Court review is appropriate.

B. The Deliberate Indifference Standard Applied by the Federal Circuit in *SEB* Blurs the Complementary Relationship Between Sections 271(b) and (c).

By proffering a culpable mental state requirement for section 271(b) as low as the negligence construct of "deliberate indifference" in *SEB*, the Federal Circuit blurs the functions of sections 271(b) and 271(c) of the Patent Act. The separation of secondary liability into contributory infringement and inducement of infringement under the Patent Act of 1952 demonstrates an intention to treat the two types of secondary liability differently and to hold alleged infringers to different standards. Section 271(c) imposes liability upon a defendant who sells or offers for sale a component of a patented invention "knowing the same to be especially made or especially adapted for use in an infringement of [a] patent," if such component has no "substantial non-infringing use." Section 271(b) contains no such limitations. The scope of section 271(c) is thus more narrowly defined and more limited than section 271(b). *See* Lynda J. Oswald, *The Intent Element of "Inducement to Infringe" Under Patent Law: Reflections on Grokster*, 13 Mich. Telecomm. Tech. L. Rev. 225, 229-30 (2006).

The broader scope of section 271(b) is supposed to be counterbalanced, however, by a stricter intent requirement. Reducing the intent standard to deliberate indifference, as *SEB* does, means that section 271(b) effectively swallows section 271(c). *See* Timothy R. Holbrook, *The Intent Element of Induced Infringement*, 22 Santa Clara Computer & High Tech.

L.J. 399, 407-08 (2006). The *SEB* standard reduces the state of mind requirement for section 271(b) to the level of negligence. By contrast, this Court has made it clear that a contributory infringer under section 271(c) must know that the combination to which it is contributing "was both patented and infringing." *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964).[2]

As a result, cases of alleged infringement that would otherwise fit within section 271(c), but would not result in secondary liability for failing to meet the requirements of that section, now become infringing conduct under section 271(b). And any case that violates section 271(c) will of necessity meet the new, lower standard for section 271(b), whether or not the alleged infringer was aware of the patent. *SEB* renders section 271(c) superfluous, nullifying the carefully crafted limitations of Congressional language. That cannot be the right interpretation of section 271.

---

2. The role of intent in contributory infringement was further clarified by this Court in *Grokster*, which said that intent to induce actual infringement in cases of contributory infringement could be presumed from the absence of a non-infringing use for the component. *Grokster*, 545 U.S. at 932. The same inference cannot be made if the component has both infringing and non-infringing uses.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX

APPENDIX A

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JOINT APPENDIX

Supreme Ct, U.S.
FILED
NOV 29 2010
OFFICE OF THE CLERK

5

No. 10-6

IN THE

Supreme Court of the United States

GLOBAL-TECH APPLIANCES INC. and
PENTALPHA ENTERPRISES, LTD.,

Petitioners,

v.

SEB S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FEDERAL CIRCUIT

JOINT APPENDIX

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APPENDIX A — RELEVANT DOCKET ENTRIES

U.S. DISTRICT COURT
UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK (WHITE PLAINS)
CIVIL DOCKET FOR CASE #: 7:99-cv-09284-SCR

08/27/1999	1	COMPLAINT filed; Summons issued and Notice pursuant to 28 U.S.C. 636(c); FILING FEE $150.00 RECEIPT # 353187 (pf) (Entered: 08/30/1999)

* * *

11/09/1999	18	ANSWER to Complaint and COUNTERCLAIM by Pentalpha Enterprise (Attorney William Dunnegan) against SEB S.A. ; Firm of: Perkins & Dunnegan by attorney William Dunnegan for defendant Pentalpha Enterprise (ds) (Entered: 11/10/1999)
11/24/1999	19	FINDINGS OF FACT AND CONCLUSIONS OF LAW ...Plntf's motion for a preliminary injunction is granted. Plntf is directed to settle a proposed order in 10 days on four days notice. So ordered: (signed by Judge Barrington D. Parker Jr.) (ds) (Entered: 11/24/1999)

Appendix A

* * *

12/16/1999	23	ORDER granting preliminary injunction pursuant to Rule 65, F.R.Civ.P. (signed by Judge Barrington D. Parker Jr.); Copies mailed. (ec) (Entered: 12/17/1999)

* * *

11/14/2000	46	MANDATE OF USCA (certified copy) Re: affirmed [0-0] recommendations appeal, [24-1] appeal by Pentalpha Enterprise, Montgomery Ward & Co (Tis Court affirmed the judgment or decision that was appealed...Costs are taxed against the Appellant(s) in favor of the Appellee(s) under Rule 39.....Jan Horbaly, Clerk (kz) (Entered: 11/15/2000)

* * *

03/21/2001	49	SUPPLEMENTAL FINDINGS OF FACT AND CONCLUSIONS OF LAW (SEB's application for supplemental injunctive relief is granted. The plaintiff is directed to settle an Order in ten days on five days notice. The Court shall hold a hearing with respect to plaintiff's application for a contempt citation on April 23, 2001 at 9:00am. So

Ordered, 3/20/01.)(signed by Judge Barrington D. Parker Jr.) (kz) (Entered: 03/22/2001)

* * *

10/18/2002 88 ANSWER to Complaint by Global-Tech Applianc (Attorney William Dunnegan from the Firm: Perkins & Dunnegan). (fk) (Entered: 11/06/2002)

* * *

01/10/2006 120 MEMORANDUM DECISION AND ORDER denying 94 Motion for Summary Judgment. Defendants are ordered to turn over all materials concerning opinions given by Thomas Adams, Esq. to Defendants. (Signed by Judge Stephen C. Robinson on 1/9/06) "The Clerk's Office Has Mailed Copies". (ae,) (Entered: 01/11/2006)

* * *

05/16/2006 153 MOTION for Judgment AS A MATTER OF LAW. Document filed by Global-Tech Appliances, Inc., Pentalpha Enterprises LTD.. Return Date set for 6/13/2006 09:00 AM. (der,) (Entered: 05/17/2006)

Appendix A

* * *

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11/10/2008 212 TRANSCRIPT of proceedings held on 04/18/2006 before Judge Stephen C. Robinson. Court Reporter: Sue Ghorayeb. (jma) (Entered: 11/10/2008)

11/10/2008 213 TRANSCRIPT of proceedings held on 04/19/2006 before Judge Stephen C. Robinson. Court Reporter: Sue Ghorayeb. (jma) (Entered: 11/10/2008)

11/10/2008 214 TRANSCRIPT of proceedings held on 04/20/2006 before Judge Stephen C. Robinson. Court Reporter: Sue Ghorayeb. (jma) (Entered: 11/10/2008)

11/10/2008 215 TRANSCRIPT of proceedings held on 04/21/2006 before Judge Stephen C. Robinson. Court Reporter: Sue Ghorayeb. (jma) (Entered: 11/10/2008)

* * *

06/19/2006 227 DECLARATION OF WILLIAM DUNNEGAN IN OPPOSITION TO PLAINTIFF'S MOTION FOR

Appendix A

ENHANCED DAMAGES: in Opposition re: 107 MOTION for an Order of Attachement.. Document filed by Global-Tech Appliances, Inc., Pentalpha Enterprises LTD.. (gco) (Entered: 12/22/2008)

Appendix A

U.S. COURT OF APPEALS
FOR THE FEDERAL CIRCUIT
DOCKET #: 2009-1099
CASE #: 99-CV-9284

12/04/2008	2	Official Caption. SERVICE: by Court on 12/4/2008 DOC : : SEB 2009-1099 (12.4.08 CAPTION.pdf
03/02/2010	36	Appellants [Pentalpha Enterprises Ltd. and Global-Tech Appliances, Inc.] - Petition for Rehearing En Banc. Mail Service - 3/2/2010. Filed 3/2/2010.
03/02/2010	42	Petition/En Banc Action: Denied/ Denied on 3/25/2010.

APPENDIX B — PRODUCT SUPPLY AGREEMENT DATED JULY 1, 1997

PRODUCT SUPPLY AGREEMENT

SUPPLIER: Name: Pentalpha Enterprises Limited

Address: Kin Teck Industrial Building
12/F, 26 Wong Chuk Hang Road
Aberdeen, Hong Kong

This Agreement, dated as of July 1, 1997, is between Sunbeam Products, Inc., a Delaware corporation ("Sunbeam") and Pentalpha Enterprises Limited, a Hong Kong limited liability company ("Pentalpha").

1. Term. The term of this Agreement ("Term") will be July 1, 1997 to June 31, 2001.

2. Supply. During the Term, Pentalpha will be the sole supplier to Sunbeam of the Products listed in Schedule A. Pentalpha's supply rights and Sunbeam's purchase requirement obligations are subject to all terms and conditions set forth herein, including without limitation, Pentalpha's continued delivery of products in accordance with all terms and conditions of Sunbeam's purchase orders for products and product specific manufacturing and distribution agreements. Notwithstanding the foregoing, this Agreement is not a guarantee by Sunbeam to purchase any specific quantity of Products at any time, but that Pentalpha shall remain the exclusive supplier of each of said Products in accordance with the terms hereof so long as Sunbeam continues to market similar or like products

of the type listed in Schedule A during the Term of this Agreement. Pentalpha hereby acknowledges that Sunbeam is entitled at any time during the Term to discontinue its marketing of similar or like products of the type listed on Schedule A, or to engage in the direct manufacture of its complete supply of such products, and thereby eliminate Sunbeam's need to purchase Products pursuant to the terms of this Agreement for the duration of such discontinuance or direct manufacture, by giving Pentalpha ninety (90) days prior written notice.

3. Pricing.

A. The price for the Products will be defined in the individual product manufacturing and distribution agreements. Notwithstanding any provision of such agreements, pricing for the respective Products shall be adjusted, upon the mutual agreement of Sunbeam and Pentalpha, as follows: (i) The portion of the price attributable to materials will be adjusted based upon material costs as of July 1 of the new year, and (ii) the pricing of the Products will be reduced by two percent (2%) for the net of material costs (which is defined as the pricing after the material cost and freight) on July 1 of each year.

B. All items not currently being manufactured by Pentalpha will be quoted by Pentalpha as soon as possible. If the quoted prices from Pentalpha are equal to or lower than Sunbeam's existing pricing, a project will be started to move tooling from the current supply

source to Pentalpha no later than by April 1, 1998. Sunbeam and Pentalpha agree that time is of the essence and will strive to move as much tooling as possible before the Chinese New Year holiday. If Sunbeam does not own the tooling, Pentalpha will begin new [illegible] construction when pricing is agreed upon.

4. Product Rebates. In consideration of the exclusive supply commiments contained herein and so long as Sunbeam is in full compliance with this Agreement, Pentalpha shall pay to Sunbeam a rebate in the amount of one million dollars ($1,000,000) for purchases made during the period July 1, 1996 and June 30, 1997. This sum shall be paid in two (2) equai installments, the first on August 15, 1997 and the second on September 30, 1997. Pentalpha shall give notice to Sunbeam five (5) days in advance of each of these two payments of the form of payment to be made (check or deduction/debit memo).

5. Modification and Assignment. No modification, amendment, extension, waiver or assignment of this Agreement or any provisions hereof shall be binding unless in writing and signed by the president or a vice president of each of the parties. This Agreement is binding on and shall inure to the benefit of the parties to this Agreement and their successors, and shall not be assigned by any party without prior written consent.

6. Governing Law. This Agreement shall be interpreted, enforced and construed under the laws of the State of Florida as applied to contracts entered into

between residents of Florida to be performed wholly in Florida and without giving effect to conflict of law principles, and each party hereby agrees to exclusive jurisdiction and venue in the State of Florida for all purposes and proceedings.

7. Notice. All notices given by either party hereunder to the other party shall be addressed as follows:

To Sunbeam: Sunbeam Products, Inc.
Suite 200, 1615 South
Congress Avenue
Delray Beach, Florida 33445
Attn: Director of Procurement

To Pentalpha: Pentalpha Enterprises Limited
Kin Teck Industrial Building
12/F, 26 Wong Chuk Hang Road
Aberdeen, Hong Kong
Attn: John Sham

8. Entire Agreement; and Counterparts. This Agreement embodies the entire agreement and understanding of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings between the parties with respect to the subject matter hereof. This Agreement may be executed in counterpart copies in the United States and Hong Kong, each of which may be executed by one or more of the parties hereto, but all of which, when taken together, shall constitute a single agreement binding upon all of the parties hereto.

Appendix B

IN WITNESS WHEREOF, each of the parties has cuased this agreement to be duly executed by an authorized representative as of the day and year first above written.

ATTEST	SUNBEAM PRODUCTS, INC.
[illegible]	By: s/George Timehal Name: George Timenal Title: Vice President, Purchasing
ATTEST	PENTALPHA ENTERPRISES LIMITED
[illegible]	By: s/John Sham Name: John Sham Title: President

Appendix B

SCHEDULE A

Products Covered Under Supply Agreement

PRODUCTS NOT CURRENTLY PRODUCED BY PENTALPHA

Air Cleaners	2585 2587 2588 2590
Air Filter Replacements	6588 6612 6613 6615 6617 6618
Ultrasonic Humidifiers	696 1281
Hand Mixers	4450 2603
Coffeemakers	5653 5654 5655 3262 3263 3264 3265 3270 3271 3272 3273 3274 3275
Garment Steamers	4026 4036
Irons	4014 4015
Rice Cookers	RS-05 RS-06 RS-07 RS-15 RS-25 RS-26 RS-27
Rotisseries	4780 4783
Toaster Ovens	4831 4857 4877 4878

PRODUCTS CURRENTLY PRODUCED BY PENTALPHA

Breadmakers	5814 5815 5839 5840
Food Steamers	4710 4711 4713 5710
Travel Irons	3939
Rice Cookers	4706 4708
Deep Fryers	3240 3241 3242 3243

APPENDIX C — TRANSCRIPT EXCERPTS

* * *

Sham-direct-Zivin

Q [241] Tell us how it came about that you sold the fryers of Exhibit 30-A to Sunbeam?

A Okay. Sunbeam visited our factory and our company in Hong Kong, and they asked us if we wanted to develop a deep [242] fryer for them. And at that time, we were also thinking about developing, so we up-to-date Montgomery said they are interested in a deep fryer. Then we will be doing the marketing research, which is including evaluating what's the products available on the markets, and getting you know starting on the pricing, on the cost structure and getting some samples for evaluations.

THE COURT: I'm sorry. When you say getting some samples for evaluation, samples of what?

THE WITNESS: Samples of deep fryers are already on the markets.

THE COURT: Thank you.

Q Have you finished your answer?

A Well, I --I don't know how, you know, broad the question. Can you be a little bit more specific so I can answer a little bit more?

Q Sure. I'll ask you some more questions.

As part of your evaluation, did your company purchase a T-Fal fryer?

Appendix C

A We bought a SEB product.

Q A SEB product. A SEB deep fryer?

A Yes.

Q And did you take it apart?

A Yes. At that time, we --you know, we bought a whole bunch of them. SEB is one of them, and we bought also brand [243] names under Moulinex and brand names under Delonghis. There is a whole bunch of them.

Q At that time, were you selling steamer products to SEB's UK operation?

A Yes.

Q And did you send technicians from your company to SEB to have discussions with them regarding the steamer products?

A I can't remember. We sent representatives to the UK. I remember that the food steamer was our patented product that we offered to SEB to take our product.

Q And SEB purchased your product for a while; is that right?

A Yes.

Appendix C

* * *

CROSS-EXAMINATION
BY MR. DUNNEGAN:

Q [333] Mr. Sham, I am just going to ask you a few more questions about your background. Okay?

A Okay.

Q When did you join the Global-Tech group of companies?

A I – your question was, when did I join the group?

Q When?

A Back in 1984.

Q What did you do immediately before you joined the Global-Tech group of companies?

A I was president of a company called WESI Corporation, in New York.

Q And what business was WESI in?

A WESI at that time –

THE COURT: I'm sorry. Can you spell that for us?

THE WITNESS: W-E-S-I.

Appendix C

THE COURT: Thank you.

A WESI was a trading company of houseware products, electrical household products.

Q And how many years did you live in New York?

A I lived there for one and a half years.

Q And where did you live?

A In Forest Hills, Queens

Q [334] Before you worked for WESI, what did you do?

A I was studying at Control Data Institute in Arlington, Virginia.

Q And what were you studying there?

A Computer science.

Q And about how long were you studying there?

A It's about less than a year.

Q Did you complete the program that you were in?

A Yes.

Q What did you do before you studied computer science in Arlington, Virginia?

Appendix C

A I was studying at the UBC, University of British Columbia, in Vancouver, Canada, studying English and college preparation.

Q Now, at the time you started at the University of British Columbia, was English your first language?

A No.

Q What was your first language?

A Chinese.

Q And when you started, about how much English did you speak?

A Almost none.

Q Now, very briefly, can you tell us about your family?

A Yes. I'm married with three children.

Q Now, I'm going to ask you –

[335] THE COURT: Hold on there. Tell us how old your children are and their names, please.

THE WITNESS: My eldest one is a daughter who is already 17.

THE COURT: Wow. Good for you. My daughter just turned 16.

THE WITNESS: Sixteen. Okay. And the youngest son is seven.

THE COURT: Wow. And then you have one more.

THE WITNESS: One more in between, which is 13.

THE COURT: Thirteen. Well, good for you.

THE WITNESS: Thank you.

THE COURT: I am a single father with a 16-year-old, so I appreciate anyone who happens to be going through that period of their life.

THE WITNESS: A long time.

THE COURT: Go ahead. I'm sorry.

THE WITNESS: Thank you.

Q Now, a little background about your companies. Could you tell us what kind of company Global-Tech is?

A Well, Global-Tech serves as a holding company, and it holds a whole bunch of subsidiaries which design and manufacture household appliances.

Q And does Global-Tech do anything other than own

subsidiaries?

A [336] No.

Q Who started the business?

A My father. My father did

Q When?

A He started in 1963.

Q Now, in 1994, when you personally got involved in the business, how big was the business in terms of employees or sales?

A Well, it was about, let's say three to four million dollars in new sales, and about less than 200 people.

Q When you personally started back in 1984, what job did you personally do at the company?

A I joined the company, one subsidiary named Kwong Lee Shaun, K-W-O-N-G, Kwong, and then Lee, L-E-E, S-H-A-U-N. And I was the managing director of that company, and at that time I – the purpose of that company was to set up manufacturing in China from Hong Kong, and so I was setting up the JV and operation in China, as most of them are sales and marketing jobs.

Q Okay. Now, what is your current title?

A I'm the group president and CEO of the companies.

Q And when did you assume that position?

A I'll say before the public offering, which is probably in' '96 or '97.

Q And what was your position immediately before that?

A [337] Before that, I was president of subsidiaries.

Q And when did you become president of the subsidiaries?

A In 1993, or '94. '93, yeah.

Q Now, could you tell us briefly, what's happened to the business of the company since about 1993, when you took over as president of the subsidiaries?

A Well, I grow the business.

THE CLERK: This is a fire drill. We have to exit the building, please.

(Recess)

(Jury present in the courtroom)

Appendix C

THE COURT: Okay. I am going to get one smile. Thank you. Well, great. Welcome back. Did that lift your spirits, having that brief interlude?

THE JURY: Sure.

THE COURT: Okay. Mr. *Lebrec, I haven't gotten a smile out of you all day.

You made my day. Thank you.

We will continue with the examination of Mr. Sham by Mr. Dunnegan.

Mr. Dunnegan.

CROSS-EXAMINATION CONTINUED
BY MR. DUNNEGAN:

Q Mr. Sham, let me ask you the question that you were in the middle of answering before we had the drill. Okay?

A [338] Right.

Q Can you tell us briefly what happened to the business of Global-Tech and its subsidiaries since 1993, when you became its president?

A The business get – got expanding, and in other words, I say I grow the business, until, let's say 1998, and then recently, in all these coming years, it's

become very competitive, so the business drop. Last year especially, we lost a lot of money.

Q Now, today, approximately, how many people work for the subsidiaries of Global-Tech altogether?

A About 2800 people.

Q And at the present time, what do you personally generally do for the companies?

A Well, I'm in charge of the overall operation and setup, strategic planning, for the whole groups.

Q Now, I am going to ask you some questions about deep fryers, okay?

A Okay.

Q Now, at the beginning of 1997, did your company make a deep fryer?

A No.

Q At some point after the beginning of 1997, did your company develop a deep fryer?

A Yes.

Q [339] What happened to cause Pentalpha to develop a deep fryer?

A Well, at that time, in the early part of 1997, one of our customers, Sunbeam, came to us and requested that we will be able to make a deep fryer for them. And they give us like a solid specifications product requirements that they need. So, we were afterward shown – tried to develop a product for them.

Q And who made the decision at your company to decide to develop a product for Sunbeam?

A Me.

Q Now, can you tell us the first step that Pentalpha took to develop a deep fryer for Sunbeam?

A Yes. First of all, we will be doing some market research and study on the deep fryer categories, and gather information as much as possible from all the contacts that we know, and then also looking around in the marketplaces and buying some samples back for evaluations.

Q Do you know which companies – which employee of your company actually purchased the products for evaluation?

A Yes.

Q What was his name?

A Well, he's one of our engineer manager. His name is Jason Lui. L-U-I.

Q And do you remember, approximately, when he purchased [340] Deep fryers for evaluation?

A I think it is in the early part of 1997.

Q And where was his office at that time, in the early part of 1997?

A In Hong Kong.

Q Now, do you know any of the deep fryers that your engineer purchased in order to evaluate?

A Yes.

Q Which brand names?

A Well, they purchase a couple of them, a few of them. The one – the three that I now recall is a Moulinex deep fryer, and a SEB deep fryer, and a Delonghi deep fryer. And there may be some others I can't remember at this moment.

Q Let's take a moment and talk about SEB. At that point in time, were you familiar with SEB?

A Yes.

Q How?

A Well, SEB was our customer at that time, that they buying our products.

Appendix C

Q What product did they buy from you?

A Well, they bought a product from us that we created that we have patented. It's called food steamer.

Q Now, let's go back to the SEB fryer that was purchased. Did Jason show – did Jason, your engineer, show it to you at about the time he purchased it?

A [341] Yes. He show me a couple of days later.

Q Now, Mr. Sham, I would like to show you a document which we have marked as Exhibit A.

THE COURT: A document?

MR. DUNNEGAN: I'm sorry. A thing. I apologize.

THE COURT: Another deep fryer. Well, let me not get ahead of the witness, because he may tell me it's something else and I will be embarrassed.

Q Mr. Sham, what is that?

A Well, that's the deep fryer that, that Jason bought from Hong Kong in those years, in those days.

Q This is the actual deep fryer?

A Yes.

MR. DUNNEGAN: Your Honor, I offer it into evidence.

MR. ZIVIN: I would just like to see it, Your Honor.

THE COURT: Oh, please.

MR. ZIVIN: No objection.

THE COURT: Defendant's Exhibit A is received in evidence.

(Defendants' Evidence A received in evidence.)

Q After your engineer purchased that deep fryer, Exhibit A, did you examine it in Hong Kong?

A Yes.

Q [342] Now, at the time you examined it, was it important to you whether or not that deep fryer had a patent number on it?

MR. ZIVIN: Objection.

THE COURT: I'm sorry. Let's go back. Can you tell us who, who made that deep fryer? Do you know?

THE WITNESS: Yes.

THE COURT: Can you tell us who it is?

THE WITNESS: Yeah. It is at the time SEB. It's SEB.

THE COURT: It's – I'm sorry?

THE WITNESS: It's SEB.

THE COURT: SEB, S-E-B?

THE WITNESS: Yes.

THE COURT: And when was that deep fryer made, do you know? When was it given to you?

THE WITNESS: In the early part of '97, it was purchased from Hong Kong.

THE COURT: You purchased it in Hong Kong?

THE WITNESS: Right.

THE COURT: And your question is, did it have a U.S. patent number on it?

MR. DUNNEGAN: Did it have any patent number on it?

THE COURT: Well, I don't know that – I am going to sustain the objection.

MR. DUNNEGAN: I'm sorry, Your Honor?

Appendix C

THE COURT: [343] I am going to sustain the objection.

Q Did the product in fact have any patent number on it?

A No. When I was looking at a product, of course, that we would evaluate, which is one of the things is including whether the product would have any patent number on it.

Q Did that fact have any significance to you?

A Of course.

MR. ZIVIN: Objection.

THE COURT: I am going to allow that answer.

Q What, what significance did it have to you?

A Well, if we can –

MR. ZIVIN: Objection.

THE COURT: Sustained.

Q Now, what role did this deep fryer have in the development or in Pentalpha's development of a deep fryer?

A Well, this one is part of our program, that when we

dev p products, we will try to see what's on the market, what's their feature, what's the competitiveness, and what is the things that, that meeting our specification, and then it's part of the evaluation process, and we will say that from – these are specifications that we establish, that we will do it on our own and decide which deep fryer that we want to go.

Q At some point, did you decide on the features that you wanted to include in Pentalpha's deep fryer?

A [344] Yes.

Q Now, I believe you mentioned you had a –

THE COURT: I'm sorry, Mr. Dunnegan. I am going to go back. You asked Mr. Sham what significance it had to him that it didn't have a patent number on it. That was the objected to question.

MR. DUNNEGAN: I apologize. My memory is not that good. I don't remember exactly –

THE COURT: Hold on. Let me go back.

MR. DUNNEGAN: – what I said.

THE COURT: I'm sorry. I sustained the objection. I am going to allow him to answer that question. The question was – I am going to try to get it exactly.

Mr. Sham's answer was, "When I was looking at

a product, of course, that we would evaluate, which is one of the things is including whether the product would have any patent number on it."

Your next question was, "Did that fact have any significance to you?"

His answer was, "Of course."

And then the next question was, "What significance did it have to you?" I am going to allow him to answer that question. If you want to ask him again so it's clear.

MR. DUNNEGAN: Okay. Can I – is it possible just to back up for a couple of more questions to put it in [345] context, Your Honor?

THE COURT: Sure. I'm sorry to interrupt, but on second thought, you can go ahead.

Q Mr. Sham, when you examined the product, did it have a patent number on it?

A No.

Q Did that fact have any significance to you?

A Yes.

Q What significance did it have to you at that time?

A Well, if – the product that has a patent number, I mean that will be very important to us, that we would certainly give that patent number to our patent attorney which is in U.S. and in Europe, to see what the patent is, so that we would not be getting the infringement problem.

Q And if it didn't have a patent – the fact that it didn't have a patent number on it, did that fact have any significance to you at the time, back in 1997, when you examined it?

A Yes. It is also important, because then we will think likely that the product is not going to have any patent.

Q Now, let's move forward in time, Mr. Sham. At some point in time, did Pentalpha determine what features it wanted to include in its deep fryer?

A Yes.

Q And did it, did it get its ideas for features by looking [346] at the other deep fryers that it had purchased?

A Yes. Some of them.

Q Okay. Now, do you remember a -- do you remember mentioning a Delonghi deep fryer?

A Yes.

Q Did Pentalpha incorporate any features from the Delonghi deep fryer into its design of its own deep fryer?

A Yes.

Q Can you tell me which feature or features?

A Yes. We look at the feature of the deep fryer, and the Delonghi has a window on the top of the cover, so what the window means is that when you are frying food inside, you can see clearly it's ready or not.

With this item, you cannot see, you don't know when it's going to be ready, so this kind of feature we will be thinking about.

Q I should have done this earlier, but I would like to hand you Exhibit 30-A in evidence.

Now, did you incorporate the window from the Delonghi into your deep fryer?

A Yes.

Q And could you just point it out to the jury?

A See, this one has a window, a clear window, so when you are frying food, you see the food condition inside.

Here, you can't see. It's just covered. You don't [347] know when it's ready. So it's different.

Appendix C

Q Okay. Now, in studying the SEB deep fryer, which is marked as Exhibit A, did you study its features?

A Yes.

Q Are there any features of the SEB deep fryer that you did not incorporate into Pentalpha's design of a deep fryer?

A Well, there are many features.

Q Tell me what they are, please.

A First of all, the unit – let's see. We have here the basket. The way we fry, we incorporate a handle that you can lift up the basket inside of the pan, when it is ready or not, and then this handle can be – just take the food out.

On this unit, you only have a knob here, turning the oven down, but the handle is not incorporated together with this knob.

Q Could you just show the jury how the handle works on the SEB deep fryer, Exhibit A?

THE COURT: You may have to get off the stand, if that makes it easier.

A See, the SEB window is, is an attachment that attach here. Instead of incorporate here, they don't have a window – they don't have a handle here. They have

to just turn up and down. And when you want to take your food out, you have to take this attachment or take the basket out.

Ours is different, in that when you have – let's [348] see, open here, and then this one, you can just take it out, put it in, and you put the basket down while you are frying food, so this is one of the feature that is different, the second difference.

Q Mr. Sham, before you go to the second one, can you take the handle out of the SEB one, just to show it to the jury?

A You cannot.

Q You cannot?

A There's no handle here.

Q No, but isn't the handle detached?

A No. It's missing.

Q It's missing. Okay. I'm sorry.

Now, was there any other feature of the SEB deep fryer that you did not incorporate in your design of your deep fryer?

A See, the second feature which is significant is that when you look at this pan inside, this unit is made up of aluminum.

THE COURT: Hold on. When you say "this unit," just identify –

THE WITNESS: This is the T-Fal unit.

THE COURT: Okay.

A It's made of aluminum, and our unit is made out of die casting with nonstick coating, so, which means it's much easier to clean. This one get very dirty, after deep [349] fryings. And our unit is nonstick. That's also different.

Q Now, excuse me. The feature you were talking about was actually the cooking pan itself, right?

A That's right.

Q Okay.

THE COURT: Can I see the SEB unit for a moment, please.

THE WITNESS: Yes.

THE COURT: Well, let me note for the record – well, let me ask you, Mr. Sham, this unit is clearly dirty and has been used. That's because in the context of the work you did with it, you folks made it dirty, correct?

THE WITNESS: Not really, because –

THE COURT: When you purchased it, it looked like this?

THE WITNESS: It looked just like the aluminum.

THE COURT: Right. But look at this, because you have shown it to the jury. I just want to be clear what's happening.

THE WITNESS: It's been used.

THE COURT: It's dirty. It wasn't like this when you bought it, right?

THE WITNESS: No, no.

THE COURT: And this unit that you are showing them as a comparison that you say is easier or keeps clean–

THE WITNESS – [350] Yes.

THE COURT: – is an unused unit; is that right.

THE WITNESS: That's right.

THE COURT: Okay. I just don't want any confusion, how it got like this, as compared to how that one is like that.

THE WITNESS: Right.

THE COURT: Okay.

Q Mr. Sham, is – once you get organized, is there any other feature of the SEB deep fryer which you did not incorporate in Pentalpha's deep fryer?

A Yes.

Q Please tell us what the next one is.

A There are other features that we incorporate that's different. One is on the – regarding the cool wall, and the bottom plate. Our unit, we incorporate with the bottom plate, that has ventilation holes, so that the air can escape from inside the pan, the hot air can exit, so that the wall will get – will be cooler, than the other unit, instead of a sealed unit.

And also there is a timer, that we would have built into the product, so you can see when it's ready, it can make a noise. I think that's, you know, something that I can think of right now.

Q Okay. Is there any difference between the heating [351] elements between the two units?

A Yes. The way the heating elements that we built is, that it is underneath the die casting pan, so that it is not raised, so when you do the cleaning, it's much easier, rather than this unit where the heating elements you can see is being raised.

Q I think you are going to have to point to it, Mr. Sham.

A That's this one here. This is the heating element, is here the aluminum is raised up. And in our unit, the – you do not see the – any heating elements inside the pan. It is all just surfaced and smooth, so it's easier to clean.

THE COURT: I'm sorry to interrupt once again, Mr. Sham. With respect to the unit in your hand, the Sunbeam unit that you made, when was that unit designed and made?

THE WITNESS: This unit was designed in early 1997.

THE COURT: In 1997. So from 1997. Is that machine that we're looking at from 1997?

THE WITNESS: I don't know exactly this machine, but from 1997, it looks like this.

THE COURT: It's the same machine – that was the first machine that you have built and you have never changed it?

THE WITNESS: Right.

THE COURT: Thank you.

Q Now, just to clarify, you have a second version – you [352] have a redesigned deep fryer, correct?

Appendix C

A Yes.

Q Okay. Does the cord storage differ between the two units?

A Yes, yes. Also here, because this unit, the cord is just hanging around. Our unit, we have a cord storage, so when you want to wrap the cord inside here, you can just wrap here without the cord hanging around. This is – all this here is the cord storage.

Q And is there any difference involving springs for the lid?

A Pardon me?

Q Is there any difference between the two deep fryers involving springs for the lid?

A Yes. Yes, also.

Q Can you please tell us what that is?

A Well, the way that we – when you – the food is ready, so you want to take the food out, we have a button that is built on the side, just push and the spring will just pop up.

For this unit, it seems you have to pull all over, so this is built different, the way you take your food out.

Q I am going to suggest that we put the deep fryers to the side for the moment, and I'm going to hand you Exhibit B. I'll take "A" back.

Mr. Sham, what is Exhibit B?

A [353] Exhibit B is the base of our deep fryer.

MR. DUNNEGAN: Your Honor, I offer it.

THE COURT: Any objection?

MR. ZIVIN: No, Your Honor.

THE COURT: Exhibit B is received in evidence. (Defendants' Exhibit B received in evidence.)

MR. DUNNEGAN: Now, You Honor, for the next series of questions, it will be very helpful if I could be allowed to hand an identical exemplar to each member of the jury.

THE COURT: Any objection? No, there is no objection. You may do that.

MR. DUNNEGAN: Would you like one, Your Honor?

THE COURT: That usually helps, so when there is problems, I can actually see what we're talking about. Do you have another extra one?

MR. DUNNEGAN: Absolutely.

THE COURT: Can you give a couple up here?

MR. DUNNEGAN: A couple? Sure.

THE COURT: That will be great.

See ladies and gentlemen, I bet you never dreamed in your life you will be examining the bottom of a deep fryer. And now your life is fulfilled. You can go on.

Mr. Dunnegan.

Q Mr. Sham, how – don't count the number of holes, but how many different types of holes are there in the base?

A [354] Basically there are three types of holes.

Q Can you tell us what the three types of holes are, and can you point to them as you describe them so that the jury can see?

A Well, first of all, you see the six holes here, are the ventilation holes, so that for allowing the air to escape.

The second holes here are the cord, the power cord to be coming out of storage from here.

Q Okay.

A And then the third one are the screw that go in, inside of the base.

Q Okay.

MR. ZIVIN: Your Honor, may we have a side bar for a moment? It's this particular testimony that I just want to discuss.

THE COURT: Here is what we will do. Stay, Sue. Come to the side bar (Discussion held off the record)

Q Now, Mr. Sham, how many ventilation holes are there in Exhibit B

A Six.

Q And when the – when the – if you could please put it flat on your table so that the deep fryer, it would be as if like the deep fryer was upright.

Is there any – is there anything except air [355] between the six ventilation holes that you have just identified and the metal pan in the deep fryer?

MR. ZIVIN: Objection.

THE COURT: What's the basis?

MR. ZIVIN: The basis is that the whole unit is not there. He's talking about something which is not

in front of us. Right now it's just a plate with sky above it.

THE COURT: Well, okay. Let me just see if I can help clarify. The unit actually would sit on top of this; is that correct?

THE WITNESS: That's the pan.

THE COURT: Right. Do we have one of these here?

MR. DUNNEGAN: Sure.

THE COURT: Why don't we show him?

MR. DUNNEGAN: It's 30. Do you have 30-A up there?

THE CLERK: I have 30-A.

THE WITNESS: Just the pan that's sitting.

THE COURT: Okay. Well, instead of describing it, why don't you show it to the jury. Take Plaintiff's Exhibit 30-A, turn it so that they can see as best they can.

They won't be able to see it.

THE WITNESS: Because it's covered inside. You have to take the screw out. The one that's broken with the bottom, that you can show.

THE COURT: Do we have one of those, Brandon?

MR. DUNNEGAN: [356] Do we know which one is broken? Let me show the witness Exhibit 31-B. Now, this is the redesigned model in evidence, but I think for this purpose it will be instructive.

THE WITNESS: Oh, this. Okay.

THE COURT: That's open enough so that you can actually – Mr. Skolnik, can you do me a favor. Can you grab that, can you pry it open and show it to the jury, so that they can actually see inside.

Did everyone get a chance to see that? Would you like another chance?

THE WITNESS: Can you repeat your question, because I got –

THE COURT: I think we actually had a demonstrative example for the jury. They got to see it themselves. So, why don't we move forward, ask him whatever question you want about that, but they have now had a chance to see exactly what it looks like in there.

Q Mr. Sham, does air move between the inside of the deep fryer and the outside of the deep fryer, through those six ventilation holes that you have described?

A Yes. Definitely.

Q Now, who made the decision to design the Pentalpha deep fryer, back in 1997, with those ventilation holes?

A I made the decision.

Q [357] And why did you make that decision?

A Because we think that allowing these ventilation out, you can get a cooler wall.

Q Now, after you had determined what features you wanted to include in Pentalpha's deep fryer, what was the next step in the development?

A Well, after we establish all the features and things that we want on the product, then we will start making drawings, and engineering drawings, or tooling drawings.

Q And what did you do after you had the engineering drawings done?

A We will be able to go further in making the tooling.

Q Now, I want to talk to you a moment about the tooling. What – what does tooling mean to you?

A Tooling, I mean there are several types of tooling on this product, which is to make this product. I mean,

before the product can come out, you have plastic housing, bottom, cover. All this require plastic tooling to – for the plastic injection to come out.

And then like the pan, you have a die casting tooling. For the metal piece, you have metal tooling. For the basket, you have basket tooling.

Q And approximately, how much money did your company spend on the tooling for that deep fryer?

A Well, for this type of product, I will say it's over [358] 200,000 U.S. dollars.

Q After you had started making the tooling for the product, what did you do next in terms of the development of the deep fryer?

A Well, we definitely would need to have our patent attorney that do us the analysis and search and give us opinion if our product will be any – will have any infringement.

Q Mr. Sham, I would like to show you Exhibit C. What is Exhibit C, Mr. Sham?

A Exhibit C is the opinion that rendered from Mark Levy at that time, who was our patent attorney, about the deep fryer, back in August of 1997.

Q And did you receive that document?

A Yes, I did.

Q In August of 1997?

A Well, it's the day after. Because they – when they fax this document, my Hong Kong time is like twelve hours ahead, so it was received like the day after the date.

MR. DUNNEGAN: Your Honor, I offer Exhibit C into evidence.

MR. ZIVIN: I have no objection.

THE COURT: Well, Defendants' Exhibit C is received in evidence.

(Defendants' Exhibit C received in evidence.)

MR. DUNNEGAN: [359] Your Honor, at this time, we have a number of these, and we would like to hand notebooks, black plain notebooks to each member of the jury, along at this time with Exhibit C, to place in the notebook.

THE COURT: That's fine.

Ladies and gentlemen, while this is happening, did any of you see 24 last night? I – you know, I usually try to arrange my jury so I will get at least one 24 fan, so on Tuesday morning I can talk about

last night's episode. Apparently we weren't successful. That's okay. I like you guys anyway.

Q Now, Mr. Sham, this is dated August 4th, of 1997?

A Yes.

Q And you received it, approximately, when?

A The day after.

Q Now, before you had received this opinion letter from Mr. Levy on or about August 4th, of 1997, how long ballpark had you been working with Mr. Levy?

A For this particular product or –

Q No. Generally.

A Generally, we work with him about over a year.

Q Now, with respect to this particular product, what did you ask Mr. Levy to do?

A We asked him to do a – give us an opinion and do the search to see if there is any patent infringement on our [360] product.

Q And about how long before you received the opinion letter of August 4th, 1997, Exhibit C, did you ask Mr. Levy for that assistance?

A It's about a month earlier.

Q What did you give to Mr. Levy to allow him to prepare Exhibit C, his letter?

A We give him our design drawings.

Q Did Mr. Levy, between the time you asked him to do the work and the time that you received Exhibit C, on August 4th, of 1997, ask you for any other materials?

A No.

Q Why did you ask Mr. Levy for his opinion on whether or not the deep fryer infringed any United States patent?

A We just want to make clear that the deep fryer we design at that time are, are going to – production is not infringing anybody else's patent.

Q Now, without, without reading the whole letter over at this point, did you understand when you received it what the main point of Mr. Levy's opinion was?

A Yes.

Q What did you understand Mr. Levy's opinion to be telling you?

A That the product we design is not infringing anybody else.

Q [361] Did you send a copy of this opinion letter to Sunbeam?

A Yes, we did.

Q And did you rely upon this opinion in going forward with sales of the deep fryer?

A Yes.

Q Now, does Mr. Levy's – does Mr. Levy's letter reference any feature beyond the features shown in, for example, Exhibit 30-A in evidence?

A Yes.

Q What is that?

A Well, the feature that we give to him is, in addition to the one you see here, is what we call a cycling feature.

Q What is a cycling feature?

A A cycling feature, at that time, my idea was to create something unique that we think when you cook the food and the food is being immersed in oil all the time, is no good, so we're thinking about cycling while it's doing the cooking. The basket would

automatically lift up and down, up and down, on a cycling basis, so at the end of the day we will think that the food will be not so greasy or oily.

Q Now, let me show you what we have marked as Defendants' Exhibit E, and I apologize because the "E" is a little bit blurred. Could you please tell us what Exhibit E is?

A Exhibit E is the invoice that issued from Pentalpha Enterprises, Limited to Sunbeam.

MR. DUNNEGAN: [362] Your Honor, I offer Exhibit E.

MR. ZIVIN: No objection.

THE COURT: Defendants' Exhibit E is received in evidence.

(Defendants' Exhibit E received in evidence.)

MR. DUNNEGAN: Your Honor, I would like to publish a copy to the jury.

THE COURT: Absolutely.

Q Now, Mr. Sham, at what location did Pentalpha sell the deep fryers to Sunbeam?

A Hong Kong.

Q Now, if I can call your attention to Exhibit E, do you see in the middle where it says – I guess it's the middle right – which says the letters F.O.B.?

A Yes.

Q Are you familiar with the term "F.O.B."?

A Yes.

Q What does F.O.B. stand for?

A Free on board.

Q And what does free on board mean?

A That means that the ownership of the merchandise will be passed, the titleship, over to the customer, by the time the product is being loaded to the boat in the port of Hong Kong.

Q Are you familiar with the phrase "risk of loss?"

A Yes.

Q [363] What does the phrase "risk of loss" mean?

A Risk of loss is that up to the titleship being passed or the ownership being passed to the other party, the risk of loss is on their side. They got to bear all of the liability if the product is lost or damaged.

Q So under an F.O.B. term, when does the risk of loss pass from the seller, your company, to the buyer Sunbeam?

MR. ZIVIN: Objection.

THE COURT: Well, you're only – you're testifying as to what your understanding is.

THE WITNESS: That's correct.

THE COURT: You are not giving any legal definitions here.

THE WITNESS: No.

THE COURT: Okay. You can tell us what your understanding is.

A My understanding is the – as soon as the ownership – I mean as soon as the merchandise, that we load into the boat, we are free from any obligation of the products.

Q So, can you think of any obligation that your company Pentalpha would have with respect to the merchandise after the merchandise goes over the rail of the ship, in your understanding?

THE COURT: Don't ask him that, because I can certainly think of some, so it doesn't – let's not do that.

MR. DUNNEGAN: [364] Okay.

THE COURT: You want me to say what they are?

MR. DUNNEGAN: Like a warranty? Sure. Fine.

THE COURT: Right. All the products are broken. They get them in America and none of them work. He is not free of liability from that.

MR. DUNNEGAN: Sure. You are absolutely correct.

THE COURT: All right.

Q Now, what is your understanding of when your customer becomes the owner of the product?

A As soon as the product being loaded on the boat.

Q And where did that occur with respect to Sunbeam?

A In Hong Kong port.

Q Now, when did Pentalpha begin selling the deep fryers to Sunbeam?

A In August 1997.

Q Now, did Pentalpha ever enter into an agreement with Sunbeam which included the sale of deep fryers?

A Yes.

Q About when was that?

A In October 1997.

Q And you talked about that in your direct examination, right?

A Yes.

Q That's the agreement that you entered into when you went [365] to Florida?

A Yes.

Q And do you also remember speaking on your direct examination about a contract involving Mr. Lior and Sunbeam back in about July of 1997?

A Yes.

Q Now, let's focus on the agreement from October of 1997. Why did Pentalpha enter into that agreement?

A Because we want to get more new business from Sunbeam.

Q And when you are referring to new business, what are you referring to?

A What I'm referring, that the products that at that time, that we were not manufacturing for Sunbeam, that we'd like Sunbeam to have those products – give those orders to us, and those products were at the time made by somebody else in China or in Hong Kong.

Q And you would be taking on new business?

A Yes.

Q Now, was deep fryers one of the new products under the agreement?

A No.

Q At the time of the agreement, were you already selling deep fryers to Sunbeam?

A Yes.

Q Did the supply agreement from October of 1997 result in [366] your company selling any additional deep fryers to Sunbeam?

A No. Not at that time.

Q Why not?

A Because the deep fryer products that we develop for Sunbeam at that time, all the program being locked

up, they already committed with lots of their customers. They told us that they need all these products.

So once the products being there, they're going to buy from us, because there is no tooling, no nothing else, in this product we have.

Q Now, did Sunbeam reimburse you for any of the tooling with respect to the deep fryer?

A No. It is our tooling.

Q You paid for it?

A Yeah. We pay – we build the tooling ourself and we pay for the tooling.

Q So, if Sunbeam didn't want to buy from you or your company, Sunbeam would have to start all over again with new tooling, with another company?

A Of course.

Q Sunbeam couldn't say, hey, you transfer the tooling to your competitor?

A No way, because it is our tooling.

Q Now, at some point in time, did you learn that SEB, the plaintiff in this case, had sued Sunbeam for patent [367] infringement involving a deep fryer?

A Yes.

Q Let me show you Exhibit F. What is Exhibit F, Mr. Sham?

A Exhibit F is a letter sent from Sunbeam legal department to our company on the name of myself and inform us that they –

Q Don't read it to us.

A Okay.

Q You received that, that letter or that memo?

A Yes.

Q In or about what time?

A In about, I will say April 9 or the following day.

Q Of 1990 –

A 1998.

MR. DUNNEGAN: Your Honor, I offer it.

MR. ZIVIN : I have no objection.

THE COURT: Defendants' Exhibit F is received in evidence.

(Defendants' Exhibit F received in evidence.)

THE COURT: Go ahead.

Q Now, after you received a copy of this memorandum – well, what – I apologize.

What did this memorandum from Sunbeam tell you?

A They told us that they got a complaint filed by SEB against Sunbeam Corporation with respect to the deep fryer [368] product.

Q After you received that memo from Sunbeam, Exhibit F, what did you do next in connection with the deep fryer?

A Well, we would forward this copy and talking with our patent attorney.

Q Let me show you what I've marked as Defendants' Exhibit G. Could you please tell us what that is.

A Yes. This is the letter that's sent from our patent attorney, Mark Levy, dated in April the 13th, 1998.

Q And did you receive the document at about that time?

A Yes.

MR. DUNNEGAN: Your Honor, I offer Exhibit G into evidence.

MR. ZIVIN: Yes, I have no objection.

THE COURT: Defendants' Exhibit G is received in evidence.

(Defendants' Exhibit G received in evidence.)

THE COURT: There was a dramatic pause between "G" and "received in evidence." Did you like that?

Go ahead.

Q Before you received Exhibit F from Sunbeam, and before you received Exhibit G from Mr. Levy, did you know that SEB had a patent on a deep fryer product?

A No.

Q What did you do after you received – well, strike that. [369] What is Exhibit G and what is its enclosure?

A Exhibit G is a copy of a patent concerning about a deep fryer which assignee is SEB.

Q After you received Exhibit G from Mr. Levy, what did you do next in connection with the deep fryer?

A Well, then I make a couple of copies, and to Mr. Fan, who is the director of our engineering at that time, and then I, of course, read the patent myself over.

Q About how much time did you spend at that point reading the patent?

A I will say I spend at least an hour reading the content.

Q Did you – during that hour, did you focus on anything in particular?

A Yes. Of course.

Q What?

A I was focusing on the claims, because my understanding is that what –

MR. DUNNEGAN: Is there any objection?

MR. ZIVIN: I am waiting to see what he is going to say.

THE COURT: He is just stretching.

MR. DUNNEGAN: Okay.

A My understanding is that on the patent, that the most critical part is the claims, so I focus on the claims to see what the claims said.

Q [370] Did you reach any conclusion –

MR. ZIVIN: Objection.

THE COURT: Is that the end of your question?

MR. DUNNEGAN: No, no. I stopped at the objection.

MR. ZIVIN: Oh. I'm sorry.

THE COURT: I thought there might be more. Go ahead.

MR. ZIVIN: I'm sorry. I didn't know.

THE COURT: Don't answer, but I want him to get the full question out.

Q Did you reach any conclusion after you read the SEB patent concerning your deep fryer?

MR. ZIVIN: Objection.

THE COURT: Sustained.

Q Did you have any understanding concerning your deep fryer after you read the SEB patent?

A Yes.

THE COURT: Okay. You know what we are going to do, ladies and gentlemen? We are going to take our lunch break, because I actually have a conference scheduled, and it will give the lawyers and I a chance

to discuss what's about to happen next, so we don't have a jack-in-the-box routine going on here.

I am going to wish you folks a great lunch. I hope it's better than yesterday's, and you will come back raring [371] to go. See you folks in an hour. Thanks.

(Jury not present in the courtroom)

THE COURT: Mr. Dunnegan, talk to me.

Mr. Sham, you are excused. Why don't you leave for this portion. Thank you.

MR. DUNNEGAN: You want the witness to go outside?

THE COURT: Yes, please.

MR. DUNNEGAN: Go outside.

(Witness not present in the courtroom)

THE COURT: All right. We – this witness has, as I've heard his testimony to date, no expertise in any of the technical areas. So my question is, what is the testimony you intend to elicit from him regarding whether or not he believed the patent was violated, and what's the relevance of it?

MR. DUNENGAN: The relevance of it, Your

Honor, is primarily, he is accused of willful patent infringement.

THE COURT: Well, it's not him personally.

MR. DUNNEGAN: Well, no, but he's – he's the agent of the company.

THE COURT: Okay.

MR. DUNNEGAN: I mean, it's his state of mind that they are imputing to the defendant. His state of mind, at the time that the received the patent, it seems to me, is a critical element in the case, and I would be surprised if [372] Mr. Zivin disagreed.

THE COURT: No, I don't have – I don't mind him saying he didn't believe it violated – thanks – the patent. My question is, what is it beyond that you intend to question him about?

MR. DUNNEGAN: His basis for believing that.

THE COURT: And proffer to me what you expect him to be saying.

MR. DUNNEGAN: Mr. Sham, what conclusions did you reach?

Answer: I reached the conclusion that our deep fryer was not within the scope of Claim 1.

Why did you reach that conclusion?

Because I read Claim 1, and it contained the words that – I am paraphrasing – the skirt be entirely surrounding the pan. And ours was not entirely surrounding the pan, because we had these ventilation holes.

And Reason Number 2, the words of the –

THE COURT: Le me stop you there for a second. So the thing you handed out is called the skirt?

MR. DUNNEGAN: Well, not entirely. It's part of the skirt. It's not the whole skirt. The skirt is what is – the skirt is what is surrounding the lateral walls of the base of the product. So it's the lateral walls as well as what I had handed out.

THE COURT: [373] Okay. Go ahead. I'm sorry.

MR. DUNNEGAN: And the second, the second reason that he – that he reached the conclusion that he was not within the scope of Claim 1 of the SEB patent, was the SEB patent uses the words, and again I am paraphrasing, that the pan be completely free of the skirt except for a ring.

And he will say that it is – in his understanding, it was not completely free except for the ring, because there was a metal screw from the bottom of the product that connected the outside of the product

to the pan.

THE COURT: All right. Mr. Zivin.

MR. ZIVIN: In other words, Your Honor, he wants this witness, who has no legal training, no patent training, no technical training, to give an opinion as to why he didn't infringe the patent, and I don't think that's proper for him to give that opinion.

THE COURT: Do you agree with Mr. Dunnegan's proposition that is is the state of mind of Mr. Sham that is at issue in this case?

MR. ZIVIN: No. It's the state of mind of the corporation, not Mr. Sham personally. And whether Mr. Sham read that and reached one conclusion, and another person at the company read it and reached another conclusion, could get us into endless debate.

THE COURT: And I thought, Mr. Dunnegan, that you [374] were relying on an advice of counsel defense here, that he was relying on the opinion or opinions that he received from counsel.

MR. DUNNEGAN: It's – it has to be broken into time periods, Your Honor, to be fully understood.

THE COURT: Okay.

MR. DUNNEGAN: The opinion of counsel that

we handed to the jury, Exhibit C –

THE COURT: Right.

MR. DUNNEGAN: – is dated August 4th, of 1997. That is the one that missed the SEB patent.

THE COURT: Right.

MR. DUNNEGAN: Okay. So Mr. Sham testified, I believe, that he did not know of the SEB patent until he got these memos, which I think are marked F and G, and one of them attached the SEB patent.

Now, at that point, it would seem to me that Mr. Zivin is going to make the argument, well, how could you from that point forward rely on the opinion of Mr. Levy who didn't mention the SEB patent?

THE COURT: Right.

MR. DUNNEGAN: So, what Mr. Sham is going to say is, I read the patent myself, and I reached the conclusion that I did not meet the claims of the patent, or that the product did not meet the claims of the patent, and that that [375] is my state of mind at the time.

MR. ZIVIN: Well –

THE COURT: Well, okay. I think what Mr. Zivin and I may be stuck on is the value and weight of such testimony. But that issue is for the jury. That is, this is a man with no technical background, no

legal background, who has said he wanted to depend on his lawyers to tell him if he violated a patent.

He then gets an indication that it very well may violate a patent, and he decides himself, doesn't do what he said he does, go to the lawyers, at least at that point, he decides himself, well, it doesn't really violate this patent.

I'm leaving – I will leave for cross-examination of this witness, of what is the basis of such an opinion, why maybe he didn't take it back immediately to the lawyer and say, what about this? And then you folks can argue about whatever weight and argue to the jury about what weight they should place on such testimony.

MR. DUNNEGAN: Now, in, in fairness, I mean, if you are hung up on the issue of, is it coming in for his opinion, you can give a limiting instruction.

THE COURT: Oh.

MR. DUNNEGAN: I don't have any problem with that.

THE COURT: Yes. And I can do that.

Do you request that, Mr. Zivin?

MR. ZIVIN: [376] Well, I think it has to be understood, Your Honor, that this is only Mr. Sham's personal opinion.

MR. DUNNEGAN: And I have no problem with that.

THE COURT: Okay. Great. Love you guys. You need to move on. I have a conference. And we are going to come back in at 1:00 o'clock or so, after lunch.

(Recess)

AFTERNOON SESSION

(1:35 p.m.)

(Jury present in the courtroom)

THE COURT: Good afternoon. I apologize for getting started late. Unfortunately, I had a conference that lasted until almost 1:00 o'clock, until I was dying to come right back and start the trial again. There are other people I like to consider, and so, at their insistence, we took actually a half hour for lunch, because I am just that kind of person.

All right. We are going to continue with the examination of Mr. Sham by Mr. Dunnegan. Mr. Dunnegan.

CROSS-EXAMINATION CONTINUED
BY MR. DUNNEGAN:

Q Mr. Sham, do you remember before the break that

we were talking about your receipt of a copy of the patent from Mr. Levy?

A Yes.

Q [377] Okay. And correct me if I'm wrong, but I believe you told us right before the break, right before the break, that you spent about an hour reading the patent.

A Yes.

Q Is that correct?

Now, after you read the patent, did you reach any conclusions as to your understanding of whether or not the deep fryer that Pentalpha was selling was within the scope or infringed Claim 1?

MR. ZIVIN: Objection.

A Yes.

THE COURT: I am going to allow that answer and then I will give a limiting instruction.

You may answer that question.

A Yes. I concluded that the Claim 1, that is – well, basically, the Claim 1 is the independent claim, and the rest of them is really dependent claims. And at least I concluded that two elements of these, our deep fryer, compared to this Claim 1, was not

infringing.

Q Let me stop you, because I think the Court is going to give a limiting instruction.

THE COURT: Thank you. I do.

Ladies and gentlemen, Mr. Sham is testifying about what his personal opinions are, after having received the information that he's testified about. You shouldn't take [378] that as any legal conclusion as to whether or not the deep fryer that he made violated the patent. Part of that is going to be your decision to make.

But he's testifying about what his personal opinion was after receiving the information that he received, and so you should take it as such.

Mr. Dunnegan, you may continue.

Q Mr. Sham, you mentioned there were two reasons that you didn't think that the Pentalpha product was within the scope of Claim 1.

A Yes.

Q What was the first reason?

A Well, if we look at this patent page, Column 5, and under the Claim 1, I am going to read. The Claim 1 says, "An electrical deep fryer," and then I am going to skip a few words, until the word "said," "the said

skirt entirely surrounding the lateral wall and the base."

And our product, that the Pentalpha – the unit on our base is not entirely surrounding the base of the pan, because we have holes, that the ventilate – ventilation holes can get the air to escape from the hot pan. So, this is one element I don't think is within the scope of Claim 1.

Q Was there – was there a second reason that you reached the conclusion that in your understanding the Pentalpha deep fryer was not within the scope of Claim 1?

A [379] Yes. The second element here, I'm reading here, is Line – the Line, let's see, 22. It said that "the said skirt being completely free with respect to the pan, with the exception of a ring, which joins only the top edge of the skirt to the top edge of the pan."

And then by reading this paragraph, if you look at our product, we have a screw that attaching from the bottom of the plate to the pan, which is not what we call completely free. As a matter of fact, that the screw we have, number one, is affixed to the bottom of the pan, so that it will not be moved around, and the other stuff is that if you put your hand on the screw, you get burned because the screw is hot.

So, these two elements, based on what I understood at that time, is not within the scope of

the patent range.

Q Now, do you have Exhibit 30-A up there?

You referred to a screw a moment ago. Could you point to the screw?

A Yes. It's on the bottom, on the bottom base. That is exactly that base. There's a screw for the big hole to attach these to the pan inside, so that your hand can get exposed. If you put your hand here, you get hot or burned.

Q Now, I believe you mentioned earlier that you gave a copy of the patent to Mr. Fan.

A Yes.

Q [380] Who was Mr. Fan at that time?

A Mr. Fan was the director of engineering in our company.

Q And did you have any conversations with Mr. Fan concerning the SEB patent?

MR. ZIVIN: Objection.

THE COURT: You can answer that yes or no.

A Yes.

MR. DUNNEGAN: Shall we side bar that one,

Your Honor, the next question?

THE COURT: You want to ask about the content of the conversation?

MR. DUNNEGAN: Yes, sir.

THE COURT: You are going to object on hearsay grounds?

MR. ZIVIN: Yes, sir.

MR. DUNNEGAN: And I am offering it for a non-hearsay purpose.

THE COURT: I think we are going to need to go to the side bar.

(Side bar)

THE COURT: Your exception.

MR. DUNNEGAN: I'm sorry, Your Honor.

THE COURT: Your exception to the hearsay rule.

MR. DUNNEGAN: It's – Your Honor, I don't believe it's within the hearsay rule, because it is not being offered [381] for the proof of – the truth of what Mr. Fan said. It's being offered to demonstrate Mr. Sham's state of mind and how he formed his state of mind.

THE COURT: Mr. Zivin.

MR. ZIVIN: I think, your Honor, it is being offered for the very purpose, as an out-of-court statement of Mr. Fan for what he said.

MR. DUNNEGAN: And, Your Honor, the remedy to that is a limiting instruction to the jury.

THE COURT: Well, I think without him saying what it is Mr. Fan told him, he can say, "as a result of that conversation, this is what I did," or, "this is what I" – I don't know the conversation, so I don't know what –

MR. DUNNEGAN: Did he change his understanding as to whether or not it infringed. Is that fair?

THE COURT: Yes

MR. DUNNEGAN: Okay. I can do that.

THE COURT: Right.

(In open court)

THE COURT: Mr. Dunnegan.

Q You had – yes or no, sir. You had a conversation with Mr. Fan?

A Yes.

Q And, at that time, what was the position of Mr. Fan?

A He was the head –

MR. ZIVIN: [382] Objection.

THE COURT: He can say who Mr. Fan is.

MR. ZIVIN: Oh, I thought he meant –

THE COURT: What was – no. What role Mr. –

Q What position, what title. What title did Mr. Fan have?

MR. ZIVIN: He already answered that.

THE COURT: You can answer it.

A He was head of the Engineering Department.

Q Now, did your – without telling us what was said, yes or no, did your conversation with Mr. Fan concern the SEB patent?

A Yes.

Q And about how long after you received the copy of the SEB patent from Mr. Levy did that conversation

with Mr. Fan occur?

A I think it's about the next day –

Q Now –

A – that I give him the copy.

Q Okay. But after you gave him the copy, about how long before you had the conversation with Mr. Fan concerning the SEB patent?

A We talk about at least half an hour.

Q Okay. But how much time elapsed between the time that you handed Mr. Fan a copy of the SEB patent and the time that you had a substantive discussion with Mr. Fan concerning it?

A [383] I will say at least a couple of days, a day, one day or two days. I can't remember exactly.

Q Now, after that conversation with Mr. Fan – strike that.

Had you already read the patent yourself before your conversation with Mr. Fan?

A Yes.

Q After that conversation with Mr. Fan, did you change your understanding as to whether or not Pentalpha's

deep fryer was within the scope of Claim 1 of SEB's patent?

A I did not change my mind.

Q Now, back in April of 1998, did you personally have any experience with United States patents?

A Yes, I do.

Q Now, Mr. Sham, I'm going to hand to you, in an effort to do this quickly, a group of documents, marked H, I, J, K, L, M, N, O, P, Q, R, S, T, U, V, W, X, Y, Z, AA – AA, AB, AC, AD, AE, AF, AG, AH, AI, AJ.

Sir, could you take a moment and look at those and tell me what they are.

THE WITNESS: Electrical toothbrush, too.

THE COURT: Did I miss something?

A Yeah.

Q What are they?

A These are all the United States patents that I received.

MR. DUNNEGAN: [384] Your Honor, I offer them.

MR. ZIVIN: No objection.

THE COURT: No objection, you said?

MR. ZIVIN: No objection.

THE COURT: All right. Exhibits H, I, J, K, L, M, N, O, P, Q, R, S, T, U, V, W, X, Y, Z, AA, AB, AC, AD, AE, AF, AG, AH are received in evidence. Did I miss anything?

MR. DUNNEGAN: I don't think so, Your Honor.

THE COURT: You want to make sure.

MR. DUNNEGAN: I'm sorry. It goes to AJ, Your Honor.

THE COURT: AI and AJ – have I missed anything – and received in evidence.

(Defendants' Exhibits A through Z and AA through AJ received in evidence.)

Q Now, Mr. Sham, to move quickly, I'm going to ask you the same question for each one of these, which is: Can you tell me what the exhibit is?

And if you can please limit your response to about a sentence, that will allow us to move quickly. Okay?

A Okay.

Q What is, what is Exhibit H?

A Exhibit H is the United States patent, dated September 1st, '92, that issued under my name for a product of leakage current circuit interrupter device for hair dryer.

Q [385] Now, Exhibit I, what is that?

A It is United States patent, dated April 5th, 1994, issued under my name and a co-inventor called Yu S. Kwong, for a food slicer.

Q Exhibit J, what is that, sir?

A United States patent, dated April 19th, 1994, issued to me and also a co-inventor Yu S. Kwong, the same as the previous one, for a food chopper.

Q Exhibit K, sir, what is that?

A It's a United States patent, dated July 12th, 1994, issued under my name for a coffee maker.

Q Now sir, I have to ask you a question about this one. Was this coffee maker ever commercialized successfully?

A Yes, very successfully

MR. ZIVIN: Your Honor, excuse me. I thought

we were going to have one question only on these.

THE COURT: Objection overruled. Let's not spend a lot of time on these.

What was that coffee maker? What name would we know it by?

THE WITNESS: It was sold under Mr. Coffee's name.

THE COURT: Mr. Coffee.

MR. DUNNEGAN: This is – Your Honor, this is the classic Mr. Coffee maker.

THE COURT: Joe DiMaggio.

THE WITNESS: [386] Exactly, yes.

THE COURT: Oh, okay. Great. We can move on.

It has nothing to do with deep fryers, but it's an interesting piece of information, that you all can take home with you and share with loved ones, after the trial is over.

Q Exhibit L, Mr. Sham?

A L?

Q L.

Appendix C

A L. United States patent, dated August 30th, 1994, issued under my name, for a portable steam vacuum cleaner.

Q Okay. And then Exhibit M?

A M. United States patent, February 7th, 1995, issued in my name again, for a portable steam vacuum cleaner.

Q Exhibit N?

A N is U.S. patent that is dated March 28th of 1995, for a food steamer or what you call steam cooking appliances, issued in my name.

Q And O, sir?

A Is a United States patent, dated October 3, 1995, for steam iron that issued in my name and also co-inventor Yu S. Kwong.

Q P, sir? What is Exhibit P?

A United States patent, dated October 31st, 1995, for a photosensing switch, that issued in my name and also a co-inventor called Fan Kai Leung.

Q [387] Exhibit Q, sir?

A Q is the United States patent, dated September 17th, 1996, for – issued under my name, for a steam iron.

Appendix C

Q Exhibit R, sir, what is that?

A It is a patent, U.S. patent, dated January 21st, 1997, for an automatic power interrupting apparatus for an electric appliance, under my name, and also a co-inventor named Fan K. Leung.

Q And, sir, what is Exhibit S?

A F?

Q S, S.

A S, okay, is a U.S. patent, dated October 28th, 1997, issued under my name, for a steam toaster oven.

Q And what is Exhibit T?

A Exhibit T is U.S. patent, dated December 2nd, 1997, under my name, for hair steaming apparatus.

Q And Defendants' Exhibit U, sir, what is that?

A It's U.S. patent, dated January 27th, 1998, issued in my name, for a travel steam iron.

Q And Defendants' Exhibit V?

A It is U.S. patent, dated April 7, 1998, issued under my name, for a combination bread-baking machine and convection oven.

Q Now, sir Exhibit W, what is that?

A Okay. Exhibit W is U.S. patent, dated June 30th of [388] 1998, for a deep fryer, that issued under my name.

MR. DUNNEGAN: Your Honor, this one we would like to publish to the jury.

THE COURT: Which one is that?

MR. DUNNEGAN: W for the electrical deep fryer.

THE COURT: Okay.

Q Sir, what is Exhibit X?

A X is United States patent, June 30th, 1998, that issued under my name, for a paddle for a bread-making machine.

Q And, sir, what is Exhibit Y?

A Y is U.S. patent, dated September 22nd, 1998, issued under my name, for an electric hair-curling apparatus.

Q And Exhibit D, sir – excuse me, Z, what is that?

A Z is U.S. patent, dated October 13th, 1998, issued under my name, for a detachable handle accessory for a portable steam vacuum cleaner.

Appendix C

Q And Defendants' Exhibit AA?

A AA is a U.S. patent, dated October 20th, 1998, issued under my name, for electric toothbrush.

Q And what is Exhibit AB, sir?

A AB is U.S. patent, dated February 2nd, 1999, issued under my name and a co-inventor called Kumkit, for a food steamer.

Q Okay. And Exhibit AC, sir?

A AC is a U.S. patent, dated August 3rd, 1999, issued [389] under my name and Kumkit, for electrical deep fryer.

Q And, sir, what is AD?

A It's a U.S. patent, dated August 31st, 1999, issued under my name and a co-inventor called Kumkit, for indoor grille.

Q And Exhibit AE, sir?

A AE is the U.S. patent, dated September 28th, 1999, issued under my name and co-inventor Kumkit, for a coffee maker.

Q And Defendants' Exhibit AF?

A It's a U.S. patent, dated December 28, 1999, issued

under my name and co-inventor Kumkit, for a coffee maker.

Q And Exhibit AG, sir?

A AG is U.S. patent, dated February 1st, the year 2000, issued under my name and co-inventor Kumkit, for a deep fryer again.

Q And Exhibit AH?

A AH is the U.S. patent, dated June 6th of the year 2000, issued under my name and Kumkit, for a juice extractor and beverage mixer apparatus.

Q And Exhibit AI, sir, what is that?

A AI was U.S. patent, dated August 8, the year 2000, issued under my name and co-inventor Kumkit, for toaster oven with steam.

Q And, finally, Exhibit AJ, sir, what is that?

A [390] AJ is a U.S. patent, dated April 3rd, 2001, issued under my name and co-inventor Kumkit, for a steam iron station.

Q Sir, all – from the first patent here that was issued to you, approximately, how much money in legal fees and in design fees of outside parties did you spend to secure these United States patents?

A I will say at least over half a million dollars.

Q And why was it – why was it important enough to you to spend half a million dollars, or your company to spend half a million dollars, to secure these design patents – these patents? I'm sorry.

A Well, it is important that when we create something unique, then we will be – then we will want to get – to see, if possible, we can get a patent on it, so that, first of all, I mean it's – if we have a patent, it's much easier for us to offer to customers, and then it's our product, so that we have more leverage in negotiating with customers.

Q Now, sir, after you learned of SEB's lawsuit against Sunbeam, did Sunbeam continue to sell deep fryers – did Pentalpha continue to sell deep fryers to Sunbeam?

A Yes.

Q And where did Pentalpha sell those deep fryers to Sunbeam?

A In Hong Kong and China.

Q At that time period, did you intend that if Sunbeam sold [391] a deep fryer in the United States, that Sunbeam would be infringing SEB's patent?

MR. ZIVIN: Objection.

THE COURT: Sustained.

MR. DUNNEGAN: I think we have to side bar that one.

THE COURT: No.

MR. DUNNEGAN: No.

Q Did Pentalpha sell a deep fryer to anyone else other than Sunbeam?

A At what period?

Q In the period of 1997 or 1998.

A I think we only – at that time, we only sold to Sunbeam.

THE COURT: You asked a previous question on the willfulness element? The previous question that you asked.

MR. DUNNEGAN: I'm sorry. You are addressing me, Your Honor?

THE COURT: Yes.

MR. DUNNEGAN: Okay.

Appendix C

THE COURT: You –

MR. DUNNEGAN: Yes, willfulness as well as 271(b).

THE COURT: I am going to allow that question.

MR. DUNNEGAN: Okay. May I just backtrack for a second?

THE COURT: [392] Please.

Q Okay. Mr. Sham, the deep fryers that you sold F.O.B. Hong Kong to Sunbeam, did you intend that if Sunbeam sold them in the United States, that Sunbeam would be violating and infringing SEB's patent?

MR. ZIVIN: Objection.

THE COURT: I am going to allow that.

A No, of course not.

Q Now, did Pentalpha sell any deep fryers to Montgomery Ward?

A Yes.

Q Where did Pentalpha – well, what was – what – you may have covered this with Mr. Zivin, but just to put it into context. Did the Montgomery Ward model

differ substantially from the model sold to Sunbeam?

A The cover was different, and there are a few knobs, and the handles are different.

Q And where did Pentalpha sell the deep fryers to Montgomery Ward?

A In Hong Kong and China.

Q I am going to hand you what we have marked as Exhibit AK. Could you please tell us what that is.

A Yes. These are the purchase orders that issue from Montgomery Ward to our companies, and also commercial invoices.

Q [393] And which customer do these refer to?

A Montgomery Ward.

MR. DUNNEGAN: Okay. Your Honor, I offer the package.

MR. ZIVIN: No. No objection, Your Honor.

MR. DUNNEGAN: Your Honor, we would like to publish the first two –

THE COURT: Hold on, hold on. Defendants' Exhibit AK is received in evidence.

Appendix C

(Defendants' Exhibit AK received in evidence.)

MR. DUNNEGAN: Your Honor, we would like to publish the first two pages to the jurors.

THE COURT: Sure.

Q Now, sir, if I can take you to the, to the first page, the one that has the stamp on it, AK. Do you see in the middle of the page where it says "F.O.B. Hong Kong?

A Yes.

Q What does that mean?

A Free on board.

Q And what is your understanding of where title passed with respect to this sale?

MR. ZIVIN: Objection.

THE COURT: We went through this already with him.

MR. DUNNEGAN: I'm sorry?

THE COURT: We went through this already with this [394] witness.

Q Okay. And, sir, was this front page created by your company or was it created by Montgomery Ward?

A Montgomery Ward.

Q And the second page was created by your company, correct?

A The commercial invoice, yes.

Q Sir, your company sold these deep fryers to Montgomery Ward. Did you intend that if Montgomery Ward resold them in the United States, that Montgomery Ward would be infringing SEB's patent?

MR. ZIVIN: Objection.

THE COURT: I am going to allow it. Go ahead.

A No.

Q Now, other than Montgomery Ward and Pentalpha – excuse me.

Other than Sunbeam and Montgomery Ward, did Pentalpha Enterprises, Limited, itself, sell any of the deep fryers to any other person?

A In the U.S.?

Q Oh, I'm sorry. Yes. Which had its headquarters in

the U.S.

A Not that I know.

Q Okay. Now, we've covered in your direct that Wing Shing Products BVI sold deep fryers to Fingerhut, right?

A [395] Yes.

Q Where did your company – where did Wing Shing Products sell those deep fryers to Fingerhut?

A In China and Hong Kong.

Q Let me hand you, if I may, Exhibit BY. Could you please tell us what that is?

A This is the invoice that issued by our company Wing Shing Products to Fingerhut.

Q And where – and does this document show that the sales occurred F.O.B. a port in Asia?

A Yes. It's F.O.B. Yantian, China. Yantian is in Shenzhen.

MR. DUNNEGAN: Your Honor, I'd like to – I'm sorry. May I offer this one in evidence?

THE COURT: Any objection?

MR. ZIVIN: No objection.

THE COURT: Defendants' Exhibit BY is received in evidence.

(Defendants' Exhibit BY received in evidence.)

MR. DUNNEGAN: May I publish it?

THE COURT: Yes, you may publish it.

Q Sir, your company sold deep fryers to Fingerhut F.O.B. Hong Kong. Did you intend that Fingerhut would infringe SEB's patent if Fingerhut resold those products in the United States?

MR. ZIVIN: [396] The same objection.

THE COURT: Overruled.

A No.

Q Now, sir, after you learned of SEB's lawsuit against Sunbeam from Sunbeam, after you read Claim 1 of the patent and after you spoke with Mr. Fan, did you do anything else with respect to the SEB patent?

A Yes.

Q What?

A Well, we tried to redesign a unit and working with our patent attorney.

Q Which patent attorney did you contact concerning this issue?

A Thomas Adams. Thomas Adams, yes.

Q And where was he located?

A I think he's located in New Jersey.

Q And what generally did you ask Mr. Adams to do?

A Well, we give him our proposed redesign drawings, and back and forward, and worked with him.

Q Mr. Sham, I'm going to hand to you, to move things along, in one bunch, Exhibits AM, AO, AP, AQ, AR, AS, AT, AU, AV, AW, AX, AY, AZ, BA, BB, BD, BE, BF, BG, BH, BJ, BK, BL, BM, BN, BO, BP, BQ.

Sir, could you tell us what these are?

THE COURT: Mr. Dunnegan, before he answers, am I [397] correct that there was no AN, as in Nancy"

MS. MARTIN: Correct, Your Honor.

THE COURT: Okay.

MR. DUNNEGAN: Your Honor, there was a couple of others that were missing. If it would help you, we can tell you what those were.

A These are all of the correspondence –

Q No, Mr. Sham. Hold on.

THE COURT: BC?

MS. MARTIN: BC and BI, Your Honor.

THE COURT: Got it.

A These are all of the correspondence between our company and Thomas Adams that, regarding our design in relation to the SEB patent.

Q And did you see each of those pieces of correspondence at or about the time they were written?

A Yes.

Q And, generally, how do you know that?

A Well, we basically – we have a stamp that mark, you know, who received these correspondence, and you can see my name is here.

MR. DUNNEGAN: Your Honor, I, I offer the documents that Mr. Sham has in his possession.

MR. ZIVIN: Your Honor, I am sorry, I will have to take a minute, because I thought there was –

THE COURT: [398] Take a minute.

MR. ZIVIN: — no foundation for some of these.

MR. DUNNEGAN: Your Honor, if it would move it along, I can withdraw the offer.

THE COURT: Okay.

MR. DUNNEGAN: Okay. Let's just move it along. So, we have identified them for the record, but I have not moved their admission into evidence.

THE COURT: Okay.

MR. DUNNEGAN: Thank you.

Q Mr. Sham, let me hand to you Exhibit BR, and I apologize because it's a little bit blurred. What is that?

A This is the letter from our patent attorney, Thomas Adams, that give us the opinion of our redesigned unit that is not infringing the Sunbeam product — I'm sorry, the SEB product.

MR. DUNNEGAN: Your Honor, I move for the admission of BR.

THE COURT: Any objection to BR?

MR. ZIVIN: No objection to that one.

MR. DUNNEGAN: Your Honor, we —I'm sorry.

THE COURT: BR is received in evidence.

(Defendants' Exhibit BR received in evidence.)

MR. DUNNEGAN: And we would like to publish that one.

THE COURT: [399] Yes, you may.

Q Mr. Sham, is BR the culmination of the correspondence which was marked in the earlier documents for identification?

A Yes.

Q Now, we need to go into a little more detail at this point about that redesigned deep fryer. How did that redesigned deep fryer differ from the original deep fryer that was sold by your company?

A Well, the, the redesigned deep fryer does not have a ring.

Q When you say "ring," could you tell us what you mean by that?

A If we can take a look at the product, it will be easier.

Q Would you like it in front of you?

THE COURT: Yes. Which one would you like?

MR. DUNNEGAN: 30-A.

Q 30-A is the original one.

A Yes.

When I refer to the ring, I mean the black material that are on the top of the housing. These are the ring that go around the pan. So the redesigned unit does not have this ring at all.

Q Now, in the redesigned unit, what separates the metal pan from the plastic skirt?

A The redesigned unit, instead of the ring, we have the [400] six small little blocks that are underneath the pan and the skirt.

MR. DUNNEGAN: Do we have a redesigned one up there, Mr. Skolnik?

THE CLERK: Is it 31-B?

THE WITNESS: That's the one.

Q Mr. Sham, I'm going to hand you Exhibit 31-B, which I believe it's been previously identified as the modified deep fryer. Can you show us the portion which differs from the original?

A Yes. The — this one here, you don't have the ring at all. This is part of the housing, from here to here. So instead of this ring, we have little blocks that — underneath the pan, which you can't see here, but it creates a gap, so that instead of a seal, this one has ventilations here.

Q Now, did you understand that the opinion of Mr. Adams addressed the one that's in front of you right now, the modified one, the redesigned one?

A Yes.

Q And what — and without reading it all to us, what did you understand that Mr. Adams was communicating to you in Exhibit BR?

MR. ZIVIN: Objection.

THE COURT: Is this document BR in evidence?

MR. DUNNEGAN: [401] In evidence.

THE COURT: Well, I would allow him to testify— first of all, he could read any portion of the letter he wanted, and I will let him testify as to what he understood it to mean.

A I understand that with this letter, that we are free from the patent infringement.

Q With respect to which product?

A To the T-Fal, the SEB patent.

Q Right. And with respect to which product of Pentalpha?

A The redesigned unit.

Q It might make sense at this point to pull that down from the counter.

Was the — was the redesigned deep fryer cheaper for you to manufacture than the original deep fryer?

A Yes.

Q Why?

A Because by eliminating the ring which I was just referring to, the ring cost a lot of money, we don't need the whole ring, we only have little six blocks, which is very cheap, and it is the same material as the ring.

Q Now, what did you do at this point regarding production of the deep fryer?

A We.

Q The redesigned deep fryer, I should say.

A [402] After we redesigned deep fryer, we also ask a second attorney for his opinion, too.

Q And who was that attorney?

A It's Peter Canelias.

Q About when did you start working with this attorney Peter Canelias?

A I think it's in 1998.

Q Now, Mr. Sham, I'm going to hand to you a copy of Exhibit BZ. Could you please tell us what that is?

A Yes. This is the opinion that we received from Peter Canelias about the deep fryer or the redesigned deep fryer.

Q And, approximately, when did you receive that opinion?

A I will say one day after December 8th, 1999.

MR. DUNNEGAN: Your Honor, I offer Exhibit BZ in evidence, and I note that it has been redacted.

THE COURT: Any objection?

MR. ZIVIN: No, Your Honor.

THE COURT: Plaintiff's Exhibit – I'm sorry. Defendants' Exhibit BZ is received in evidence.

(Defendants' Exhibit BZ received in evidence.)

MR. DUNNEGAN: Your Honor, may I hand you the redacted copy of the exhibit?

THE COURT: Yes. Thanks.

Q Sir, did you make any sales of the redesigned deep fryer before Mr. Canelias gave you an opinion with respect to [403] whether or not it infringed the SEB patent?

A No.

MR. DUNNEGAN: Your Honor, we are going to publish BZ at a later point.

THE COURT: Okay.

Q Sir, do you know whether or not your company received an oral opinion from Mr. Canelias –

A Yes.

Q – before it received the written opinion marked as BZ?

A Yes.

Q Do you know, approximately, when it received that oral opinion?

A It's about a couple of weeks.

Q Now, did Pentalpha sell the redesigned deep fryer to any company?

A I think, yes.

Q Let me show you what's been marked as Exhibit CA. Can you please tell us what that is.

A That's the commercial invoice from our company to Montgomery Ward, dated December 3rd, 1999.

Q And did that concern – did that sale concern the redesigned deep fryer?

A Yes.

Q And where did that sale take place?

A In Hong Kong and China.

MR. DUNNEGAN: [404] Your Honor, let me offer CA.

THE COURT: Any objection?

MR. ZIVIN: No objection.

THE COURT: Defendants' Exhibit CA is received in evidence.

(Defendants' Exhibit CA received in evidence.)

MR. DUNNEGAN: And may we publish to the jury the first two pages?

THE COURT: You may publish it to the jury.

Q And, sir, if you look – if you look at the page with the sticker with CA on it, do you see in the middle of the right-hand section the notation "F.O.B. Yantian, China"?

A Yes.

Q Is Yantian a port?

A Yantian is a port in Shenzhen.

Q I'm sorry. You said a word and it didn't register with me. What was the word?

A I said Yantian is a port in Shenzhen.

Q Now, sir, did Wing Shing Products sell any redesigned deep fryers to any company?

A Yes.

Q Do you know which company?

A Fingerhut.

Q May I hand you what has been marked as Exhibit CB.

A It's an invoice that is issued by Wing Shing Products to [405] Fingerhut.

MR. DUNNEGAN: Your Honor, I offer Exhibit CB in evidence.

MR. ZIVIN: No objection.

THE WITNESS: That's a purchase order.

MR. ZIVIN: No objection.

THE COURT: Defendants' Exhibit CD –

MR. DUNNEGAN: No, CB.

THE COURT: I'm sorry. CB is received in evidence.

(Defendants' Exhibit CB received in evidence.)

MR. DUNNEGAN: And we will publish it, Your Honor.

THE COURT: You may.

Q Now, Mr. Sham, looking again on the right-hand side of Exhibit CB, do you see the notation to "F.O.B. Yantian, China"?

A Yes.

Q And were these sales to Fingerhut made F.O.B. Yantian, China?

A Yes.

Q Now, other than to Fingerhut, did Wing Shing ever offer to sell, or sell any deep fryers to any other company that had its headquarters in the United States?

A Not that I am aware of.

Q Now, Mr. Sham, I am going to ask you a couple of questions about royalties, okay?

A [406] Okay.

Q Now, do you have an understanding of the phrase "royalty rate"?

A Yes.

Q What does that phrase mean to you?

A It would normally refer to the percentage of sales.

Q The percentage of sales of what?

A Of merchandise.

Q And who pays the royalty rate?

A The licensee normally will pay the license – the licensor a percentage of sales.

Q And what are they paying for?

A To get the license.

Q Now, since you have been involved in selling electrical appliances, since about 1984, have you ever heard of a royalty rate in your industry, other than one that is settled in a lawsuit, of above five percent?

MR. ZIVIN: Objection, Your Honor. Expert testimony.

THE COURT: Sorry?

MR. ZIVIN: He is asking him for expert testimony.

THE COURT: No, he is asking him for his knowledge. He can ask him what, if any, knowledge he has.

A Based on all of the years I have been involved in the industry, I have never heard of something higher than five [407] percent.

MR. DUNNEGAN: Your Honor, I have no more questions for Mr. Sham at this time.

Appendix C

* * *

Sham-redirect-Zivin

Q [409] Is it your position that marking your invoices "F.O.B. China" or "Hong Kong" avoids any liability for infringement of a U.S. patent when you sell a product to a U.S. customer?

A I am not avoiding any things that will get infringement, but we do sell only in Hong Kong F.O.B.

Q Sir, let me ask the question again. Is it your position in this case that your companies are not liable to SEB for patent infringement because you put "F.O.B. Hong Kong" or "China" on your invoices to American customers?

MR. DUNNEGAN: Objection.

THE COURT: Overruled.

A Yes.

* * *

Q [414] Now, you said you used various features from various products in creating a deep fryer, right?

A Yes. We established our own specification on the product.

Q What about the cool wall feature? You used that feature from the SEB T-Fal product in your product, didn't you?

A It's not only SEB, but it's the products we bought is all cool touch.

Q Mm-hmm. Did you make any search by asking anyone whether a cool touch deep fryer was patentable?

A We did.

Q Did you ask any patent lawyer to make a search to determine whether you would be infringing any patent on a cool wall deep fryer?

A Yes.

Q Who did you ask?

A We ask Mark Levy.

Q [415] And what did you tell Mr. Levy?

A We forwarded our design of our drawings.

Q And did you tell him it had a cool wall?

A Yes.

Q Did you tell him it had a ring that connected the skirt to the pan at the top of the unit?

A Our design that we forwarded to him has this ring.

Q And did you call that out to him, that that's what it was going to have?

A Well, the design we forwarded to him would be the design that he would evaluate.

Q In fact, the design that you asked him to evaluate was the design of this cycling fryer of Exhibit W which you told us you never sold, isn't it?

A It's the same structure, except the cycling is just more feature based on the basic unit.

Q Did you tell Mr. Levy when you asked him to do a search that one of the products you were making a copy of was a SEB T-Fal product?

A We did not tell them it's a SEB product or not SEB product, because we are not particularly to say that it copy the SEB deep fryer. I mean, there is a whole bunch of products that we referred to.

Q Isn't it true, Mr. Sham, that you didn't tell Mr. Levy who was making cool wall deep fryers in the hopes that he [416] wouldn't find any patent and then he could tell you, "I didn't find anything"?

A How can I just tell my attorney that, you know, something like —you know, at that time, we just ask the attorney to do your job, you got to search the

things for us. We want you to render an opinion to us.

Q But you never told him, you never told him who were the major companies that were making these products, did you?

A Most of the time we don't tell them all the brands name anyway. I mean he is professional.

Q Don't you think he would have gotten a better result, sir, if you had told him who it was that was making the product that you were evaluating, so he could actually look and see if they had any patent on the product?

MR. DUNNEGAN: Objection

THE COURT: Overruled.

A If we have a patent number, that would be an easy job for our attorney. But of course, I mean, we pay them money, we hire them. We try to work with them, and then we expect it's their job to do something for us.

Q Isn't it true you hired Mr. Levy in Binghamton, New York, because he is the least expensive lawyer you could find anywhere?

A I don't think so.

Q NOW, you said Mr. Levy had given you a non-infringement [417] opinion; is that what you said?

A Yes.

Q And that was Exhibit C, correct?

A Yes.

Q Does Mr. Levy's opinion say anything about a SEB patent?

A No.

Q So, he didn't give you any opinion that you don't infringe a SEB patent, did he?

A He did not give us the opinion on —well, he gave us all the research and all the related patent, but I think he missed the SEB patent.

Q So he gave you an opinion regarding other patents that are described in this letter, but he doesn't say anything about any SEB patent?

A No SEB patent.

Q So you couldn't rely on this opinion for the position that you didn't infringe the SEB patent, could you?

A I have to rely on his opinion.

MR. DUNNEGAN: Objection.

THE COURT: I am going to allow the answer.

Q So you relied on an opinion which didn't say anything about the SEB patent for your understanding that you didn't infringe the SEB patent?

A At that time, how can we know?

Q I didn't ask you -

A [418] It would depend on his opinion, to give us the opinion that our deep fryer will not infringe anybody else in the United States.

Q In fact, you thought Mr. Levy's opinion was incompetent, didn't you?

A After the fact, of course we were angry with him.

Q You were angry at him.

A After the fact.

Q You were angry with him; is that what you said?

A I said yeah, we were mad, because he missed that search.

Q Let me direct your attention to Exhibit AN. I am not sure whether you have it up there or -

A Yes, I do.

Q Do you have it there?

A No.

Q Well, let me show you my copy of Exhibit AN. Is that a letter that you directed your Mr. Vicky Tai to send to Mr. Levy?

A Vicky Tai sent the letter to Mark Levy, yes.

Q And did you direct him to do that?

A I am aware of this letter.

MR. ZIVIN: I offer Exhibit AN, Your Honor .

MR. DUNNEGAN: No objection.

THE COURT: As AN, Defendants' Exhibit AN is received in evidence.

[419] (Defendants' Exhibit AN received in evidence.)

Q Now, in that letter, sir, it refers to "a big SEB patent," Number 4,995,312, doesn't it?

A Pardon me?

Q In the letter that you have, Exhibit AN, it refers to a big, B-I-G, SEB patent, 4,995,312, correct?

A Well, the letter said that, but I, I will assume, because Vicky Tai's English was very poor at that time, his English always typo mistakes and something that - ¬you know, in his letters, a lot of grammar mistakes, too.

Q Okay.

A So I don't know what is, you know, big, if the "big" is telling me something. It doesn't mean anything meaningful to me.

Q You don't know what a big T-Fal patent is?

A I don't know the word "big" that he put there means. I will assume that he is talking about the T-Fal patent.

Q And did you ask Mr. Levy for compensation for getting you into a problem by his opinion?

A I don't think myself. I mean maybe Vicky Tai.

Q Well, you saw the copy of this letter, right?

A Yes.

Q After that, did you use Mr. Levy for any additional patent work?

A I can't remember.

Appendix C

* * *

MR. ZIVIN: [609] That's all for Mr. Berreth.

Now, I am going to read from the deposition of Mr. Al Lior, taken in that Sunbeam case on December 14th, 2000. And we are going to – we have already identified Mr. Lior, so we are going to start at page –

THE COURT: I'm sorry. Why don't you remind the jury who Mr. Lior is or take them through that testimony.

MR. ZIVIN: I think I can just remind the jury.

Mr. Lior was the head of a company called Pentalpha Enterprises U.S., that we had asked Mr. Sham about the other day. This is on Page 28, Line 12.

"Question: Mr. Lior, are you familiar with the [610] deep fryer product that was sold by Pentalpha to Sunbeam?

A Yes, I am.

Q Do you know who designed that product?

A Yes. Mr. PI Fan.

Q Who is Mr. PI Fan.

A I believe he was the engineer for Pentalpha.

Q Do you know how he designed it?

A Basically, it was a T-Fal unit.

Q That is T-E-F-A-L?

A No. I believe it is T-FAL.

Q When you say it is a T-Fal unit, what do you mean?

A They actually took a T-Fal unit and changed the cosmetic design and just copied the features of the unit."

MR. ZIVIN: Now, we are going to skip to Page 113 at Line 15. "Question: Would the Pentalpha Enterprises U.S. ever sell any deep fryers to Sunbeam?

A Actually, Pentalpha Enterprises U.S. executed the deep fryer business with Sunbeam, yes.

Q Who invoiced Sunbeam for the deep fryers?

A Pentalpha Enterprises in Hong Kong, the same like every other product that was sold through the U.S., was invoiced through Hong Kong."

MR. ZIVIN: Now, we are going to go to Page 145, Line 20. "Question: So what revenues did Pentalpha

Enterprises U.S. collect directly as opposed to being [611] collected in Hong Kong?

A None. All the money was collected in Hong Kong as per John Sham's request."

MR. ZIVIN: Page 146, Line 20.

"Question: But basically when money was needed it would be sent and money was not accumulated in the account of Pentalpha Enterprises U.S.?

A That's correct, that is because John Sham did not want any money to be accumulated in the United States because of tax issues."

MR. ZIVIN: Let's go to Page 178, Line 11. This is by Mr. Dunnegan.

"You testified earlier today about the development of the Pentalpha deep fryer?

A Right.

Q And you said that Mr. Fan was involved?

A That's correct.

Q And you said that the basic goal was to copy the T-Fal product, is that a correct characterization?

A Well, basically, he took a different product and he copied it, he changed the cosmetics.

Q When did he do that?

A Back in 1996.

Q Where were you when he did that?

A I was in Hong Kong.

Q [612] When?

A I believe the design started in around March of 1996, March to April of 1996.

Q Do you know who, if anyone, Mr. Fan was working with on the project?

A I forgot the name of the engineers, but I know that they tried to send to Shanghai to weld the heating element exactly like T-Fal, and they failed to do it and they had to change it, diecast instead of deep throne, because they failed. They could not get the technique how to weld the heating element according to the T-Fal construction, so the only thing they changed was actually the deep throne bucket to diecast, but still it was the same ring that separates the bucket from the cool touch, from the wall making it a cool touch unit and the construction, basically everything the same; thermostat, it was the same; the timer was the same, just a little bit different on the cosmetics of the outside appearance for the deep fryer.

Appendix C

Q Do you know how Pentalpha obtained the model or models of T-Fal deep fryer that you claim were copied?

A I believe they bought it in Hong Kong.

Q How do you know that?

A Well, I saw the T-Fal unit at the engineering room, all taken apart, and actually they doing the drawings according to the T-Fal unit, and I assumed they could get this unit in [613] Hong Kong, selling in the market here.

Q Did you examine the unit that they were copying in your view?

A What do you mean? To what extent I examined?

Q That is probably a better question. To what extent did you examine the unit that they had disassembled?

A To the extent of the construction, not more than that. I did not go over the material. If you ask if they use nylon or rayon, I did not examine to that extent, no. But to the extent of the construction, the extent of trying to weld the heating element, the same method T-Fal did; to the extent to separate the bucket from the wall with the ring, exactly the same thing.

Q Before 1996 were you familiar with the T-Fal product?

A Very much so.

Q Were you familiar with the T-Fal product sold in the United States?

A I knew that it was selling in the U.S., maybe not particular with the deep fryer at the time.

Q Before the end of 1996, did you know that T-Fal was selling the deep fryer in the U.S.?

A I knew that they were selling a deep fryer. I did not know which particular model because T-Fal maybe has six or seven models."

MR. ZIVIN: That's all we have from Mr. Lior.

MR. DUNNEGAN: [614] I would like to go for the next two or three more questions, Your Honor.

THE COURT: Sure. And is that with Ms. Miller particularly to be Mr. Lior.

MR. DUNNEGAN: Please, please.

MR. ZIVIN: We agreed she will continue to be Mr. Lior for this purpose, Your Honor.

MR. DUNNEGAN: "Did you know that any of them were patented?

A No. If I would know that they were patented, I would warn Mr. Fan in advance not to copy.

Q When did you first learn that there was a patent on a T-Fal product or on a version of the T-Fal product in the United States?

A When T-Fal started suing people.

Q When was that?

A Actually, that was only 1998 I believe I learned that T-Fal is a party. I did not know that T-Fal is a party.

Q Do you have any reason to believe that anyone at Pentalpha knew that T-Fal had a patent?

A I have no idea. I cannot answer you this question."

* * *

MR. DUNNEGAN: [717] Your Honor, as I stated earlier, with the understanding we are reserving all of our rights under Rule 50, even though we haven't made the motion with sufficient clarity, I would like to make three arguments, [718] Your Honor, that I think are well-rounded.

Number one, they have a claim for inducement of infringement prior to – inducement under – of infringement under Section 271(b) for the entire

time period of this lawsuit. There are two elements of that claim, as I understand it.

One is that there be a direct infringement somewhere by some party other than the defendant in the case. And second, that the defendant have some state of mind with respect to the patent. And I believe Your Honor has grappled with the decisions of the Federal Circuit concerning Manville and Hewlett Packard.

Now, if we look at the time period before Mr. Sham received notice from Sunbeam concerning the filing of SEB's lawsuit against Sunbeam, there is no evidence whatsoever that the jury can infer that Mr. Sham had or anyone else at Pentalpha had any knowledge whatsoever with respect to the existence of the patent.

So, it would seem to me that any claim for inducement of infringement under Section 271(b) should be dismissed at this time.

THE COURT: Mr. Zivin.

MR. ZIVIN: Your Honor, it doesn't depend on whether Mr. Sham had a state of mind that the was going to cause infringement. I think the Federal Circuit cases are [719] such that it simply depends on whether he did acts which he – I say "he," but it's not against Mr. Sham, it's the two corporations, Global-Tech and Pentalpha, so whether Mr. Sham had a certain state of mind is not really the issue. The issue is what the corporation –

THE COURT: I agree, it's the state of mind of the defendant.

MR. ZIVIN: So, the corporations, the defendants, the question is whether they intended the acts to occur.

The direct infringement is clearly by – insofar as that count is concerned, is by the customers, Fingerhut, Montgomery Ward, Sunbeam, who were selling the fryers in the United States.

There was also direct infringement – I think he is trying to distinguish that, but there is direct infringement, in our view, by the defendants in selling and offering for sale these products to American customers.

If he is trying to parse it out on just the part of inducement, then the question is, not their state of mind, but whether they intended these acts to occur, and there is no question in my, in my view, that the defendants copied the product, there was plenty of evidence on that, and that they intended that copied product to enter into commerce in the United States.

THE COURT: But don't they have to [720] understand – how is it – let me, let me ask it this way. I'm sorry. What needs to be their level of understanding that the product – let's assume for a minute, best-case scenario, the jury finds all they did

was copy the product with respect to the patented elements. Don't they have to be on notice or aware that there is a patent?

MR. ZIVIN: No. It's only whether a reasonable person would have been aware, and I think the evidence on that point is that they knew about patents, they knew to make searches. They asked Mr. Levy to make a search before they made anything, but they concealed from Mr. Levy the fact that what they were doing was copying a SEB deep fryer product.

If they had told Mr. Levy, this is what we intended to do, and were candid and straight with him, he would have done what is called an assignee search. He would have looked in the Patent Office records, which you can access by computer or manually, and looked under SEB, to see if they had a patent, and if he had looked under there, he would have seen a patent called deep fryer, and he would have found it in the search and advised them about that.

But they didn't tell him that. They set him up to fail. And I think that's an act which a reasonable person would have told their lawyer that's what we're looking for.

THE COURT: Mr. Dunnegan.

MR. DUNNEGAN: Your Honor, I am looking at the [721] opinion of Judge Parker in this case dated June 26th, 2001.

THE COURT: Okay. Hold on.

Brandon, can you get me those opinions there?

Hold on.

Okay. Which one are you looking at, Mr. Dunnegan?

MR. DUNNEGAN: I am looking at the decision of Judge Parker dated June 26, 2001, at Page 7. Of the slip opinion.

THE COURT: Oh, I don't have that. June 26th, it's dated?

MR. DUNNEGAN: Yes, and it was June 26th, 2001. It was never officially published. It was a slip opinion in this case.

MR. ZIVIN: I believe, Your Honor, that was on a contempt motion and not on a preliminary injunction motion.

THE COURT: I'm sorry, I don't have that. So talk to me about it, and then I may ask you to look at it.

MR. DUNNEGAN: It says, after quoting Section 271(b), it says, quote, "Section 271(b) requires, however, that the plaintiffs establish that the defendant," internal quote, "possessed specific intent to encourage another's infringement, and not merely that the defendant had knowledge of the acts alleged to constitute infringement." Citation to Manville Sales Corp., 917 F.2d 544-553.

THE COURT: Well, and I think Mr. Zivin's position [722] is that that specific intent can be inferred from the fact that when he does the patent search, he doesn't – in their words, I am not saying this is true, but that he doesn't fully disclose to the person he is asking to do the patent search what it is they are looking at to model their new deep fryer on.

And that the fact that a person with knowledge of patents, had in fact filed patents themselves, knew that they have got this deep fryer that they're modeling their deep fryer on. I don't think there is much dispute that that's what happened here, that it was at least modeled on the, on the SEB deep fryer, at least in part. In significant –

MR. DUNNEGAN: At least in part.

THE COURT: At least in part.

MR. DUNNEGAN: At least in part. No doubt about that.

THE COURT: They're saying that you could infer the specific intent to encourage the – oh, thank you – the specific intent to encourage the infringement by the fact that he doesn't disclose that to the people doing the search. That is, therefore, he wants to – he wants them to do a search that, as Mr. Zivin puts it, is doomed to failure, and that that is enough, that a reasonable jury could infer that, specific intent. They certainly don't have to, but I don't think that that's an unreasonable argument.

MR. DUNNEGAN: [723] Well, Your Honor, the reason why I think it is an unreasonable argument, there is no duty, in the first instance, to do a patent search before you sell a product.

THE COURT: Yes. He didn't say he had a duty. What he's saying is that you can infer from what he did that he had the intent. He didn't have to do it. A lot of things you don't have to do, but they are indications of what it is your desires are.

And what he did was, he tried to – this is the argument, I am not saying it's true. He tried to cover himself by having a patent search performed, that could not or would not be successful in discovering the patent at issue in this case. You don't have to believe that.

MR. DUNNEGAN: But here is, here is the problem. Is there any evidence whatsoever that suggests that unless you disclose your competitors'

names to your patent attorney, that the patent search would not or should not disclose their patents?

THE COURT: No.

MR. DUNNEGAN: That's the premise of their argument.

THE COURT: Yeah, but – okay. And that means that the jury could believe it or not. Look, you want me to create the argument for you? Here is the argument. There [724] are a zillion patent attorneys in New York City, where they work, too. They go to this guy in the middle of nowhere to do this patent search.

MR. DUNNEGAN: It's near Cornell.

THE COURT: And I spent eight years there. The middle of nowhere. Love it. Very happy. Undergrad. Law school. Met my wife there. Married my wife there. Love the place. Go there two or three times a year. Love the place.

Nonetheless, one could argue – I'm just saying it's a reasonable argument. I don't know what happened. I'm not in Mr. Sham's head. I don't know what he did. And fortunately, I'm not on the jury. I don't have to decide these issues. But it's a reasonable argument to say he intended to cover himself, he intended for the search to fail.

Appendix C

Look, they are going to create an argument about Mr. Canelias and how he was – why he was retained and what that relation was about. They jury might believe it, they might not. The question is, is that a reasonable – is that a reasonable argument based on the evidence, and I think it is, and whether or not, then, if it's a reasonable argument, could a jury infer from those actions, if they chose to believe them in the way the plaintiffs want, that that was an indication that Mr. Sham understood that he was likely violating a patent, in fact violating a patent.

[725] I will agree there is no evidence that he was aware of this patent. There is none that he, that he was aware, that his organization was aware.

Here is the other thing.

MR. DUNNEGAN: Okay.

THE COURT: We had testimony read into the record from one of his employees who – at least in that employee's eyes, it was clear what they were doing was copying the SEB deep fryer. I mean, that testimony is as clear as it could be.

MR. DUNNEGAN: Right.

THE COURT: So, given that the people in that department are – because it's not what Mr. Sham knew, it's what the organization knew, it's what the defendant knew. He isn't a defendant. These corporations are a defendant.

And if he's got employees who understand what we are doing in here is copying this deep fryer, hands down, no question, no dispute, that's what we're doing, then they – then you would argue, one could argue it is willful and shows specific intent to encourage an infringement, when that's what they're doing, and they never ask anybody to go look – particularly when the deep fryer which they bought and looked at was not American, one that was likely to have an American patent, but was one sold in Hong Kong, where there is no specific, necessarily, reason to have the patent on there.

[726] I am not saying this is what the jury should buy. I'm saying there is evidence in this record that they had an employee who said, hands down, no question, we are copying that deep fryer. That's what we're doing.

MR. DUNNEGAN: The same employee said he, he personally had no knowledge of the SEB patent until the –

THE COURT: Absolutely. The moment they – once they know that I am copying this deep fryer, that's what I'm doing, then I need to go perform a patent search for that deep fryer. You don't have to. One will say no, the fact that you don't do it could be evidence that you have a specific intent, your acts are willful, to not figure out if you are violating the patent.

Look, that's going to be my ruling on it. You may disagree with me on it.

MR. DUNNEGAN: Well –

THE COURT: And frankly, the Federal Circuit may disagree with me, too. You will be back.

MR. DUNNEGAN: Your Honor, I think that's inconsistent with the Knorre case as well. K-N-O-R-R-E. That's the case we will probably get to later, dealing with the inference that can be drawn from a failure to get an opinion, even if charged with infringement.

MR. ZIVIN: Your Honor.

THE COURT: But that's a different circumstance. [727] This isn't a failure to get an opinion. This is actually different. I won't say worse or better. This is different.

This is – the argument is, getting an opinion when you don't tell the person you are getting the opinion from, the key information that would allow you to know or would allow them to discover that there is a patent out there.

I don't know why they did it that way. I don't necessarily, even necessarily think that they did it wrongly. But I think one could find that one could believe that. They could believe that.

MR. DUNNEGAN: Okay. Based – Your Honor, we will accept any charge in that respect, but I understand your ruling.

* * *

[791] THE COURT: We are looking at direct infringement. The model instructions do not include the word [792] "directly". I think I am going to take it out.

I think it could go either way, frankly. It depends on what panel you guys get at the Federal Circuit whether or not they are going to like that.

MR. DUNNEGAN: I'm sorry, I didn't hear you.

THE COURT: I said it depends on what panel you get at the Federal Circuit –

MR. DUNNEGAN: Yes.

THE COURT: – whether or not they are going to like that.

Next, Number 26.

MR. DUNNEGAN: Your Honor, with respect to this, this raises the same issue about the dispute in the Federal Circuit and what, what is the relevant state of mind that the inducer must have.

Appendix C

I would, I would request that the charge be changed so that we eliminate the words – and this is pretty much in the middle of the charge on that page – "or should have known that their actions."

MS. MILLER: Judge, we object to that. We proposed the inducement instruction directly from the model, whether or not we like the words in it.

MR. DUNNEGAN: Can I raise a conceptual problem with you, and that is, whenever you have a "should have known" standard in the law, you have to tie that to some duty [793] that the person who should have done something had.

And there's no – I mean like a person driving a car should have known that if they don't stop at a red light, they are going to run over a pedestrian or they're taking that risk, because they have a duty to use ordinary care.

Here, there's, there's nothing laid out as to what the duty is of one in a foreign country selling a product. I mean I'm not saying that there could be. But for this to have meaning to the jury that they should have known, what duty did they – the jury has to ask themselves the question: What duty did that person fail to fulfill?

THE COURT: Well, I am not sure that that's accurate. For instance, in the criminal law, we say quite often, for instance, you can be a member of a conspiracy and you are going to rob a bank. And we say that that person should have known that the fact

that their co-defendant carried a weapon could have led to injury and murder, and that's why they are held liable for it. It's not clear what the law is saying about their obligation in that situation other than one shouldn't generally violate the law by robbing a bank. Maybe that's the violation there, the duty that they are violating.

MR. DUNNEGAN: It seems to me that there is a difference between should have known based upon the facts available to them, and should have known based upon [794] investigation which they should have undertaken, and it would seem to me it's in the latter situation that that this is directed.

In other words, it seems to be telling the jury that if they think that the defendant in the foreign country had an obligation to go search the United States Patent Office before selling any product anywhere, to anyone, then they should have known, and I think it's reasonably clear that that duty does not exist under the law.

Now, if you want to change this to "should have known based on the circumstances – factual circumstances that were in fact known to the defendant at the time," to make it look more like your bank robbery case, maybe that solves my conceptual problem.

MS. MILLER: Judge, we have an objection to that, instructing the jury that a foreign company is

relieved from the obligations that a U.S. company would have in selling products in the U.S., and we would stand by the model instructions which, in our view, actually favor the Defendants.

THE COURT: As a general matter you think they favor defendants or in this particular matter?

MS. MILLER: In this – well, as a general matter, and specifically the last sentence of the first paragraph, "Defendants cannot be liable for inducing infringement if [795] they had no reason to be aware of the existence of the '312 patent." In our view, I think that's an overstatement in favor of the Defendants, but because it's in the model, we have proposed it and we are accepting it. I don't think anything in here should be changed.

THE COURT: And that also balances out a little bit the issue of "should have known" statement.

All right. I am going to leave it the way it is.

* * *

THE COURT: [808] Now, assume that the jury finds willful infringement, what does that mean in terms of damages?

MR. DUNNEGAN: I think the finding --

THE COURT: You are like a student, you like to raise your hand.

MR. DUNNEGAN: Yeah, I get all excited about this [809] stuff, you know.

We have a conceptual problem I think with the verdict form, because willful infringement is not a one description fits all time periods conclusion. There is various time periods in this case that involve various states of mind of the Defendant.

For example, until Sunbeam was sued by infringement - sued for infringement in March of 1998, I think Your Honor said this morning that there is no evidence that Mr. Sham knew of the patent.

Then we go into a different time period where Mr. Sham is reading the patent --

THE COURT: When you say Mr. Sham, you mean the Defendants, the defendant company. It's not him personally.

MR. DUNNEGAN: Sure, sure. But Mr. Sham, on behalf of the Defendants, is reading the patent, he is talking to his engineer and proceeding to redesign, but does not specifically get a legal opinion that deals with the original deep fryer.

Then time goes on and they go to the redesigned deep fryer, leaving the original one behind, and that seems to be a new time period.

So willfully has to be broken down. I think there has to be a question of, is there enough evidence to support a claim of willfulness at each of those time periods.

THE COURT: [810] Each of the two time periods.

MR. DUNNEGAN: Three.

THE COURT: Say them to me again.

MR. DUNNEGAN: Before Sunbeam is sued in March of 1998. Between the time Sunbeam is sued in March of 1998 and the time that Mr. Sham, in December of 1999, gets the opinion from Mr. Canelias and begins selling the redesigned deep fryer, and thereafter selling the redesigned deep fryer.

THE COURT: Why do we need a break for the last two?

MR. DUNNEGAN: I'm sorry.

THE COURT: Why do we have to break down the last two?

MR. DUNNEGAN: Because the last two -- the last one deals with the redesigned deep fryer, which Mr. Sham is selling based upon the opinion of Mr. Canelias.

Before then, Mr. Sham is selling the original deep fryer based upon his own analysis of the patent claim. Now, I'm not saying that's as good -- that's not as good as a legal opinion, but he did not have a legal opinion at that point.

THE COURT: What's your position on that?

MS. MILLER: Well, to answer your question, if the jury finds that there's willfulness, then it just opens the door for the Plaintiffs to seek increased damages up to [811] treble damages, which would be decided by the Court. So, all of these facts and details that Mr. --

THE COURT: Well, the treble damages are decided by the Court?

MR. DUNNEGAN: Oh, yeah. Oh, absolutely.

MS. MILLER: In a posttrial motion, which we hope to file.

MR. DUNNEGAN: Absolutely. The jury shouldn't hear treble damages in my understanding.

MS. MILLER: So, then, the Court would consider all of the evidence at trial, plus evidence that wasn't presented to the jury, such as the existence of a preliminary injunction, et cetera. And, so, all of the facts that Mr. Dunnegan recited just now really just go into the consideration of whether

to treble or whether to enhance damages and by how much. It's not the jury's province.

THE COURT: And for what period of infringement, if you will.

MS. MILLER: Correct. This shouldn't be the jury's problem.

MR. DUNNEGAN: Well, but I think we should look to the jury to say, there was willful infringement at the period A; there was willful infringement at time period B; there was not willful infringement at time period C, rather than ask them the general question, get an answer which is [812] vague and almost meaningless, and then have Your Honor struggle to figure out what does it really mean.

MS. MILLER: There was a decision to sell these products, a decision, that's it. That's what triggered the willfulness.

If Mr. Sham decided that in the middle of 1999 he changed his mind and decided that "I didn't really mean to do this," it doesn't change the fact that once he put these on the market, the damage started and —

THE COURT: The way I thought about the willfulness, and the way I think I wrote it in the jury --in the special verdict form, is that the willfulness needs to be tied to the selling of the two products. I

think I ask it twice. I ask it with respect to the original and to the modified/redesigned and that's when he has to have willfulness.

If he doesn't have it in the first period but has it with respect to the second one, then that says to me damages only kick in with respect to the sale of the redesigned deep --or the modified.

MR. DUNNEGAN: It's the other way around.

THE COURT: Yes. I forgot.

MR. DUNNEGAN: Whichever one they find willfulness for, it kicks in. But the point I was trying to make --

THE COURT: [813] Right.

MR. DUNNEGAN: --is that for the original one, you really have two discrete time periods. One, where everyone seems to agree - well, I shouldn't over - I shouldn't state that, because maybe somebody doesn't agree with it. But there is no evidence in the record that I see that Pentalpha had knowledge of the SEB patent. And then there came a time period, in or about April of 1998, when Pentalpha did have knowledge in that time period.

So, it seems to me if you get an answer to the question: Was it, was it willful for time period Number

I? You may be -- you may be trebling damages for which there was innocent sales or innocent infringement.

THE COURT: Ms. Miller, go ahead, then I'll comment.

MS. MILLER: There was one decision to put that original deep fryer out there. The decision was made, the acts were done. Whatever Mr. Sham learned or didn't learn later doesn't affect what happened.

MR. DUNNEGAN: It could still--

THE COURT: Well--

MS. MILLER: What he is essentially trying to do is take that beginning time period, when they have a deep fryer in the factory, and copied it and sent it out the door, he is trying to exclude that time, that --those circumstances, [814] because Mr. Sham allegedly did not know about the '312 patent. But the whole point of showing that he or the company had the deep fryer in the, in the factory is to show willful infringement.

The whole point is that he didn't get a US product and looked for a patent marking on that. The whole point is that he put customers' trademarks on it and sent it to the United States. It's, it's --it all goes to willful infringement from the beginning time period. You can't just extract it.

THE COURT: Mr. Dunnegan.

MR. DUNNEGAN: I believe the Federal Circuit cases deal in terms of, you have a duty to conduct - you have a duty to exercise reasonable care, not when you sell the product in the first instance, but when you are charged with the, the notice of the patent, and he wasn't charged with the notice of the patent until April of 1998. That's when the duty of care kicks in.

MS. MILLER: That's not accurate.

THE COURT: Well, the instruction that I put forward says, "When a potential infringer has actual notice of another's patent rights, he has an affirmative duty of due care not to infringe."

MR. DUNNEGAN: I'm sorry, Your Honor. Where did you read from?

THE COURT: [815] Page 39, the willful infringement charge.

We go on to say, right, that "Willfulness must be proven by clear and convincing evidence, showing that: One, Defendants had actual knowledge of the Plaintiff's patent, and, two, Defendants had no reasonable basis for believing, A, that the deep fryers did not infringe Plaintiff's patent, or, B, that Plaintiff's patent was invalid."

So, we're telling them that they can't find willfulness unless they believe that the Defendants had actual knowledge of the Plaintiff's patent.

So, when the jury is considering willfulness, they need to arguably make some determination roughly of when they believe the defendant had actual knowledge of the Plaintiff's patent, and not that – not at a time when they could have discovered that there was a patent but when they actually had knowledge.

We know that the date of this lawsuit being filed is a clear date of demarcation of when he had actual knowledge, but I don't know that we know any date prior to that. So, with respect to the first deep fryer, I don't – could the jury find, could the jury possibly find that it's a date prior to that? Because there has been no evidence that they had actual knowledge before the date of the lawsuit.

So, if the jury said, they, he – "the Defendants [816] willfully infringed with respect to the first deep fryer," that has to be the date that they are starting, because there is no evidence of anything before that. I mean if it's up to me to discover – to put the damages, that's the date I would start it.

MR. DUNNEGAN: That's why I want it to be clear, because if the jury was going to try to say there was willfulness from the getgo, back in August of

1997, I don't think that will be supported by the evidence.

THE COURT: Well, tell me if you think I'm wrong, Ms. Miller, but I don't think there has been any evidence that the Defendants had actual knowledge of the patent prior to the date the lawsuit was filed, which at that point the Defendants concede they had actual knowledge of the patent.

MR. DUNNEGAN: Distinguish between the date it was filed in New Jersey and the date of Exhibit – it's either F or G, from – the memo from Sunbeam to Mr. Sham.

THE COURT: I am looking – is it the June 10th date, I believe?

MR. DUNNEGAN: No, no. That's the date that Pentalpha was added as a defendant in this case.

THE COURT: Oh.

MR. DUNNEGAN: But this is the earlier date. Remember –

THE COURT: What date is that?

MR. DUNNEGAN: – [817] there was a memo. There was – the date on the memo was April 9th. It was a memo from the general counsel of Sunbeam to Mr. Sham, which he received shortly after April 9th.

THE COURT: He said he either got it that day or the next day.

MR. DUNNEGAN: Something like that.

THE COURT: April 9th or 10th, and that would have been in 1999?

MR. DUNNEGAN: '98.

THE COURT: 1998. Okay. Is there anything in the record that – from which the jury could infer?

Because, frankly, I think this means we don't have to break out the dates. If they find willfulness with respect to the original deep fryer, it has to be that date going forward, because there's been no evidence that it could possibly be any date earlier than that, and no one will deny that they had actual knowledge on that date.

MS. MILLER: Yes. So, I agree. I don't think we need to break out the instruction.

* * *

[987] Plaintiff also asserts that Defendants have induced infringement. To show inducement, Plaintiff must prove by a preponderance of the evidence that someone has directly infringed the patent. If there is no direct infringement by anyone, Defendants have not induced infringement.

Appendix C

If you find that someone has directly infringed the '312 patent, it is not necessary to show that the Defendants themselves have directly infringed, if Plaintiff proves by a preponderance of the evidence that Defendants actively and knowingly aided and abetted that direct infringement. Plaintiff must show that the Defendants actually intended to cause the acts that constitute direct infringement and that the Defendants knew or should have known that their actions would induce actual infringement.

It is not necessary to show that Defendants have directly infringed as long as you can find that someone to whom the Defendants have sold deep fryers has directly infringed. If there is no direct infringement by anyone, [988] Defendants have not induced infringement. Defendants cannot be liable for inducing infringement if they had no reason to be aware of the existence of the '312 patent.

If you find that someone has directly infringed the '312 patent and that the Defendants knew or should have known that its actions would induce direct infringement, you may find that Defendants induced another to infringe Plaintiff's patent by supplying the infringing deep fryers with the knowledge and intent that their customers, in this case, Sunbeam, Montgomery Ward and Fingerhut, would directly infringe by selling the deep fryers in the United States.

* * *

Appendix C

THE COURT: [1004] We have another note, a note which we have marked as Court Exhibit Number 5, which reads, "We have a verdict," signed by Neil Hall. So, Mr. Skolnik, I will ask you to go get the jury.

THE CLERK: Jury entering.

(Jury present in the courtroom at 4:33 p.m.)

THE COURT: Great. I have received the note, which we have marked as Court Exhibit Number 5, which reads, "We [1005] have a verdict," signed by the foreperson. Is that correct, Mr. Foreperson?

THE FOREPERSON: That's correct, Judge.

THE COURT: All right. Mr. Skolnik, can you get the verdict form, please?

Thank you, Mr. Skolnik, can you take the verdict from the jury, please.

THE CLERK: Yes, Your Honor.

May I please ask the foreperson to please stand.

In the matter of SEB S.A. v. Montgomery Ward, Global-Tech Appliances and Pentalpha Enterprises, Ltd.:

Did the plaintiff – excuse me.

Appendix C

Question Number 1: "Did the Plaintiff show by a preponderance of the evidence that the first version of Defendants' deep fryer literally infringed Claim 1 of the '312 patent ?" Yes or no?

THE FOREPERSON: Yes.

THE CLERK: Question Number 2: "Did the Plaintiff show by a preponderance of the evidence that the modified version of the deep fryer infringed Claim 1 of the '312 patent under the doctrine of equivalents?" Yes or no?

THE FOREPERSON: Yes.

THE CLERK: Question Number 3: "Did the Plaintiff show by a preponderance of the evidence that the Defendants have induced another to infringe Plaintiff's patent with the [1006] first version of Defendants' deep fryer?" Yes or no?

THE FOREPERSON: Yes.

THE CLERK: Question Number 4: "Did the Plaintiff show by a preponderance of the evidence that the Defendants have induced another to infringe Plaintiff's patent with the modified version of Defendants' deep fryer?" yes or no?

THE FOREPERSON: Yes.

Appendix C

THE CLERK: Question Number 5: "Did the Plaintiff show by clear and convincing evidence that the Defendants willfully infringed Claim 1 of the '312 patent by the first version of the Defendants' deep fryer?" Yes or no?

THE FOREPERSON: Yes.

THE CLERK: Okay. Question Number 6: "Did the Plaintiff show by clear and convincing evidence that the Defendants willfully infringed Claim 1 of the 2 312 patent by the modified version of the Defendants' deep fryer?

Yes or no?

THE FOREPERSON: Yes.

THE CLERK: Question Number 7: "What amount of damages in the form of a reasonable royalty do you find the Plaintiff to have proven by a preponderance of the evidence with respect to deep fryers sold by Sunbeam, Fingerhut, and Montgomery Ward?"

First, Sunbeam?

THE FOREPERSON: 3,600,000.

THE CLERK: [1007] Fingerhut?

Appendix C

THE FOREPERSON: 540,000.

THE CLERK: Montgomery Ward?

THE FOREPERSON: 510,000.

* * * *

APPENDIX D — MEMORANDUM FROM SUNBEAM LEGAL DEPARTMENT DATED APRIL 9, 1998

Legal Department

MEMORANDUM
VICE PRESIDENT AND GENERAL COUNSEL

(561) 243-2127 Fax: (561) 243-2263

TO: John Sham

FROM: Janet Kelley

DATE: April 9, 1998

RE: Lawsuit by SEB

Please find attached a copy of the Complaint recently filed by SEB, S.A. against Sunbeam Corporation with respect to the deep fryer product. We have retained McDermott, Will & Emery to answer the Complaint. Please advise immediately as to your intent to retain counsel and pay all costs associated with the defense of this action.

g:\shared\legal\wpdata\jgk\memos\form

CONFIDENTIAL

APPENDIX E — DECLARATION OF WILLIAM DUNNEGAN IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK DATED JUNE 16, 2006

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

99 Civ. 9284 (SCR)

SEB S.A.,

Plaintiff,

v.

MONTGOMERY WARD & CO., INC.,
GLOBAL-TECH APPLIANCES, INC.,
and PENTALPHA ENTERPRISES LTD.,

Defendants.

DECLARATION OF WILLIAM DUNNEGAN IN OPPOSITION TO PLAINTIFF'S MOTION FOR ENHANCED DAMAGES

WILLIAM DUNNEGAN hereby declares pursuant to 28 U.S.C. § 1746 that the following is true and correct.

1. I am a member of the bar of this Court and the firm of Perkins & Dunnegan, attorneys for defendants Global-Tech Appliances Inc. and Pentalpha Enterprises Ltd. in this action.

2. I am making this declaration in opposition to SEB's motion for enhanced damages and, specifically, to set forth certain facts concerning this, and a related, litigation.

* * *

V. Comparison of the Deep Fryers

45. Annexed as Exhibit K is a graphic prepared to demonstrate the differences between the SEB deep fryer Pentalpha purchased in Hong Kong, TX B, and Pentalpha's original deep fryer, TX 30A, based upon the trial testimony of John Sham.

* * *

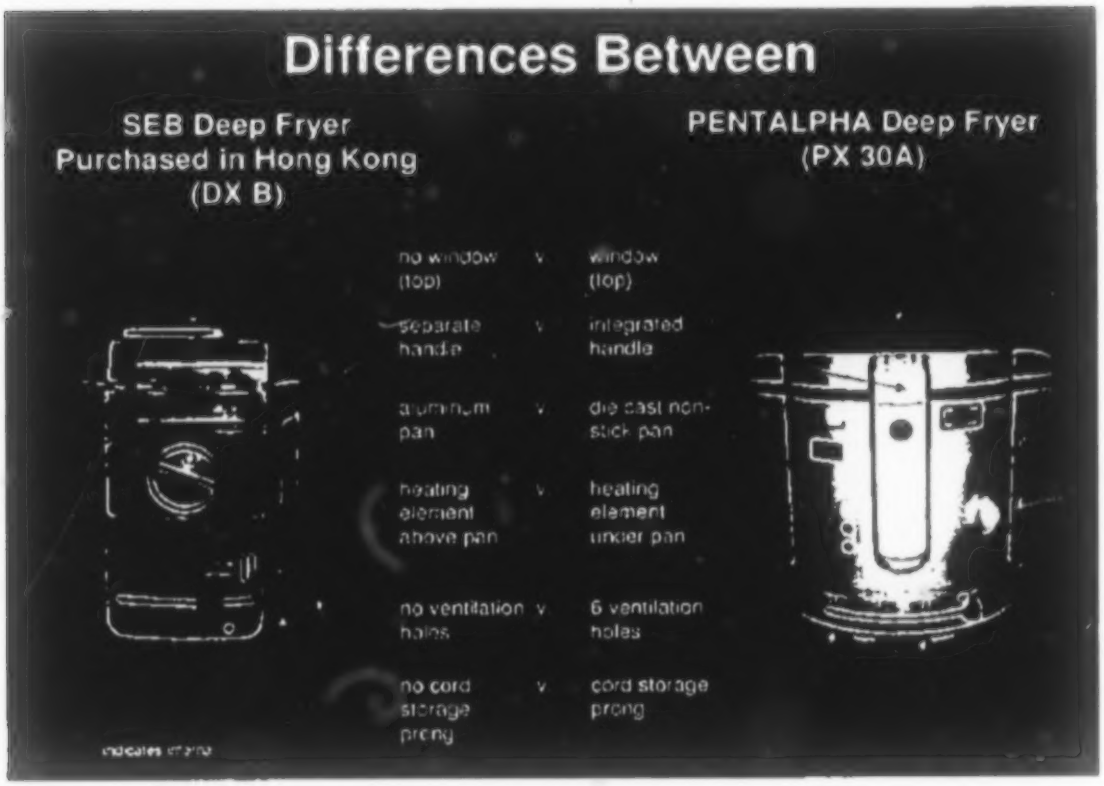
I declare under penalty of perjury that the foregoing is true and correct.

Executed this 16th day of June 2006.

/s/_____
William Dunnegan

Appendix E

EXHIBIT K TO THE DECLARATION OF WILLIAM DUNNEGAN



APPENDIX F — EXHIBIT 2 TO THE DECLARATION OF WENDY E. MILLER IN SUPPORT OF PLAINTIFF'S MOTION FOR AN ORDER OF ATTACHMENT, IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK DATED MARCH 18, 2004

* * *

Q [139] What is your actual title, sir? How are you employed?

A I'm the CEO of Pentalpha and Global-Tech family.

Q And that's a family of companies that include how many companies?

A We have subsidiaries like Dong-Wha (phonetic) Wing Shing Products, manufacturing products; we have Wing Shing Products, BVI, Limited; we have Wing Shing Overseas, Limited; we have Pentalpha Enterprises, Limited; and we have Pentalpha Hong Kong, Limited, et cetera.

Q One of your companies in that family is Wing Shing Products, BVI; is that right?

A Yes.

Q And that company is organized under the laws of the British Virgin Islands?

A [140] That's correct.

Q And that is a company that's 100 percent owned by Global-Tech; is that right?

A That's right.

Q Another one of your companies is something called Wing Shing Overseas, Limited. Is that also a British Virgin Islands Company?

A Yes.

Q And that's a hundred percent subsidiary of Global-Tech?

A Yes.

Q And you have Pentalpha Enterprise, Limited. That's a Hong Kong company; is that right?

A Yes.

Q That's a hundred percent owned by Global-Tech?

A Yes.

Q By the way, Global-Tech itself is organized under the British Virgin Islands?

A Yes.

Q Then there's Pentalpha Hong Kong, Limited. That's another Hong Kong company?

A [141] Yes.

Q And that's 100 percent owned by Global-Tech?

A Yes.

Q There's Quan Lee Shung (phonetic) Trading Company, Limited. Another Hong Kong company?

A Yes.

Q Another hundred percent owned by Global-Tech?

A Yes.

Q There's Dong Wha (phonetic) Wing Shing Electrical Products Factory Company, Limited. That's organized under the laws of the country of China. Is it still called the People's Republic of China?

A Yes.

Q And that's a hundred percent owned by Global-Tech?

A Yes.

Q Then there's the Pentalpha Macau Commercial Offshore, Limited. That's organized under the laws of the State of Macau?

A Yes.

Q And that's a hundred percent owned by Global-Tech?

A Yes.

Q And then I've got listed here a couple of companies that are 76 percent owned by Global-Tech. Global Light Array, that's a British Virgin Islands company; is that right?

A Yes.

Q Light Array, BVI. Another British Virgin Islands company?

A Yes.

Q Are you the president of each of these companies?

A Yes.

Q [142] And as to Global-Tech itself, the parent company itself, it doesn't actually employ anyone other than you, does it, sir?

A Global-Tech is a holding company.

Q Right. So it doesn't have any actual manufacturing facilities, for example? One of its subsidiaries has those?

A That's correct.

Q It doesn't have any actual people going out and selling, one of its subsidiaries does that, right?

A That's correct.

Q It doesn't have any showrooms or offices, its subsidiaries maintain those, right?

A That's right.

Q Now, for this whole ball of wax that's called Global-Tech, is it fair to say that you're the most important single individual?

A Yes.

Q In fact, the companies maintain a life insurance policy on you for $1 million; is that correct?

A Yes.

Q And you are the only employee of that family of companies on whom there is any insurance maintained?

A Yes.

Q You are also the major shareholder, are you not, sir, either directly or indirectly of the companies?

A [143] Yes.

Q Now, there's a company called Wing Shing Holdings that is the major shareholder of Global-Tech; is that right?

A Yes.

Q And, in fact, it owns about 62 percent of Global-Tech?

A Yes.

Q And you personally own 40 percent of that, right, of Wing Shing Holdings?

A Yes.

Q So 40 percent and 62 percent is roughly 25 percent of the overall entity?

A That's right.

Q You also hold 57 percent of the voting control of Wing Shing Holdings, right?

A Yes.

Q Which means you can control the company that controls 60 percent of Global-Tech, right?

A Yes.

Q So, pretty much, if you want a vote to be passed on something, you personally can do it; is that right?

A Yes.

* * *

Q [144] Could you turn to Tab 9. Do you recognize that document, sir?

A Yes.

Q Would you tell the jury what it is?

A It's the prospectus for the IPO offering.

Q What do you mean by the IPO offering?

A It's the initial public offering.

Q That is when Global-Tech was trying to raise money by selling shares of stock?

A [145] Yes.

Q Now, prior to the IPO offering, you and your family essentially owned a hundred percent of Global-Tech; is that right?

A That's right.

Q And this offering was to sell about a third of that, about 34 percent of the stock; is that right?

A Yes.

Q And for what price was that 34 percent offered to the public?

A Nineteen dollars.

Q And if the total number of shares were bought, how much money?

A Well, you take 19, multiply by 4.6 million shares, so you've got a gross of about 80 to $90 million.

Q We don't have to guess all that much. If you just look at the front page of the document right there in the middle where it says "total", you see that $79,800,000?

A Yes.

* * *

APPENDIX G — EXHIBIT B TO THE DECLARATION OF WILLIAM DUNNEGAN IN SUPPORT OF DEFENDANTS' MOTION IN LIMINE, IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK DATED MARCH 6, 2006

* * *

Q [9] Fine. Turning to the document marked F2.

A Okay.

Q Entitled "Fingerhut Corp. Purchase order." Is this a representative example of a Fingerhut purchase order?

A Yes, it is.

Q And does this document accurately reflect a vendor by the name of Pentalpha Hong Kong Limited?

A Yes, it does.

Q Were the purchase orders contained in this exhibit, which would be Exhibit 1 – Were these purchase orders sent to Pentalpha Hong Kong Limited?

A They were sent to our contact. There's a fax number on there. That would be the number that the purchase order was faxed to.

Q Okay. So the purchase order in this collection were faxed and hard copied to the fax number that's indentified under the name Dan Mullins?

A Correct.

Q And who is Dan Mullins?

A Dan Mullins is the representative for Pentalpha that calls on Fingerhut.

* * *

[18] BY MS. MILLER:

Q Okay. Going back to Exhibit 2.

A Okay.

Q Does this document accurately reflect Pentalpha Enterprises Ltd. as vendor number 233567?

A Yes, it does.

Q And is that the same vendor number that is [19] indentified in the purchase orders of Exhibit 1?

A Yes, it is.

Q And do Exhibits 2, 3, and 4 govern Pentalpha's sale of deep fryers to Fingerhut, as reflected in the purchase orders of Exhibit 1?

A Yes, they do.

Q And how did Fingerhut come about engaging Pentalpha as a vendor?

A Dan Mullins called on our buyer, Todd Seeley, on July 23rd, 1998.

Q And Todd Seeley is the person indentified as a buyer on the purchase orders of Exhibit 1?

A That's correct, under the buyer name, and then he would be the signature name under "Buyer" on Exhibit 2 and Exhibit 1, yes.

Q And when you say that Dan Mullins called on Mr. Seeley, did that call include a meeting or a telephone conversation, to your knowledge?

A It would have been a meeting in the Fingerhut building here, where he was showing a number of vendor's products to Todd.

Q And how did you come to know this information?

A I asked Todd Seeley.

* * *

Q [21] What do you those terms "FOB: YANTIAN-FCL YANTIAN-CHINA" mean to you?

A That would be the port that the goods are to be delivered to by the vendor.

Appendix G

Q Who would the goods be delivered to by the vendor?

A To our consolidator in Yantian.

Q What is a consolidator?

A A consolidator would be the company that consolidates our freight and gets it onto ocean vessels, to ship it to the port of Seattle, to clear customs and to be routed to St. Cloud or Utah.

Q Now, you mentioned the name of you consolidator. Could you repeat that for us, please.

A I don't think I did, but its DSL.

Q DID DSL appear on this sheet on page 2?

A Yes, under shipping instructions where it says "Contact DSL Shenzhen," and it has their own numbers.

* * *

APPENDIX H — EXHIBIT D TO THE DECLARATION OF WENDY E. MILLER, IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK DATED MAY 16, 2006

* * *

Q [13] Does one company develop new products whereas the other does not?

A No. It's a period of time that the Pentalpha Enterprises Limited sell some products where right now Pentalpha Hong Kong sell different products. In addition to the old products, we have new products developed.

Q Is Pentalpha Enterprises Limited currently selling any products?

A Yes.

Q About how many products is Pentalpha Enterprises Limited selling right now?

MR. DUNNEGAN: Object to the form.

THE WITNESS: I can't remember.

BY MS. MILLER:

Q Okay. When was Pentalpha Hong Kong Limited formed?

A I think it's about two years ago.

Q For what purpose was it formed?

A It was under restructure program.

Q Was Pentalpha Hong Kong Limited formed for the purpose of taking over or continuing any business that was conducted by Pentalpha Enterprises Limited?

A Taken over or continuing?

Q Yes.

A [14] It took over some of the business from Pentalpha Enterprises.

Q What aspects of the business were taken over?

A Customers, products, purchasing.

Q Did Pentalpha Enterprises Limited retain any customers?

A Yes.

* * *

Q [15] If you turn to page 3 under the header the company. And it reads: Global-Tech Appliances Inc.

is a design of manufacturer of a wide range of small household appliances.

Which company in the Global-Tech family conducts the design and manufacture aspect of the business?

A Design and manufacture?

Q Uh-huh – yes.

A Manufacture obviously is Dong Guang Wing Shing Products.

Q Okay. And which company – sorry. Continue.

A The design part is done by Pentalpha Hong Kong.

Q Does Pentalpha Enterprises do any design work now?

A No.

Q At the time the prospectus issued, was the design function – were the design functions performed by Pentalpha Enterprises?

A Yes.

* * *

SUPPLEMENTAL APPENDIX

SUPPLEMENTAL APPENDIX

6

No. 10-6

Supreme Court, U.S.
FILED
NOV 29 2010
OFFICE OF THE CLERK

IN THE

Supreme Court of the United States

GLOBAL-TECH APPLIANCES INC. and
PENTALPHA ENTERPRISES, LTD.,

Petitioners,

v.

SEB S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FEDERAL CIRCUIT

SUPPLEMENTAL APPENDIX

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PETITION FOR CERTIORARI FILED JUNE 23, 2010
CERTIORARI GRANTED OCTOBER 12, 2010

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842 C
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TREASURY SERVICE & A/P USE

COMPANY: B/Mail · TDI · TTI · DSI · DMD

UNIQUSA · USA/OUTMT · PMT CO STORE

WIR · CCCI · DNB · METRUS

Type: Inv'y B/Ship Gift Mail Pvt 1099

AOPS

VENDOR # 233567

A/P BANK

A/P PH #

DATE ISSUED

ISSUED BY

PART I ACCOUNTS PAYABLE INFORMATION (1099 vendors only)

Vendor Name

Corp Name See attached Sheet

Owner & Shareholder Number REQUIRED FOR PROCESSING

Contact Name Title

Phone # ( ) Fax ( )

E MAIL ADDRESS

Remit to Address

City State Zip

Postal Name

Postal address

City State Zip

(This is not factory info)

PART II - MERCHANDISING INFORMATION

P.O. Address

Phone

Fax

P.O. FOB Your Town

P.O. Terms C/C

Refurbishing Agreement

Contact Name

V or (I) (circle one) Comments:

Title

Phone # Fax

E MAIL ADDRESS

PART III - INT'L INFORMATION

Dept Name

Dept Contact Name

Dept address

City State Zip

Phone Fax

E MAIL ADDRESS

PART IV - APPROVAL

BUYER NAME

COORDINATOR NAME

AUTHORIZED SIGNATURES REQUIRED FOR PROCESSING

Phone

Phone

AUTHORIZED SIGNATURE

(REQUIRED)

Buyer

Please submit completed form to Treasury Services Mail Stop F-470

Revised Addresses

REVISED 8/20/97

DEPOSITION EXHIBIT 2 5-31-2001 BUTLER BOURKE REPORTING

PLAINTIFF'S EXHIBIT 22

[redacted] Jason Wong (Pentaplus) <jason@pentaplus.com.hk>
: "Dan" <Dmathome@goldengate.net>
: "Jimmy Hopponen" <Icejester3@aol.com>, "David Kelp" <SEAKELP1@aol.com>

DEPOSITION EXHIBIT 3 5-31-01 BUTLER SQUARE REPORTING

ar Dan,

It is nice receiving you e-mail, and I believe it will be very smooth co-operating with you. Following are the banking information that your require

Name Of Beneficiary: WING SHING PRODUCTS (BVI) COMPANY LTD
P.O. BOX 71,
CRAIGMUIR CHAMBERS,
ROAD TOWN TORTOLA,
BRITISH VIRGIN ISLANDS.
C/O KWONG LEE SHUN TRADING CO., LTD.
4/F., KIN TECK INDUSTRIAL BLDG.,
26 WONG CHUK HANG ROAD,
ABERDEEN, HONG KONG.

Advising Bank: THE HONGKONG AND SHANGHAI BANKING
CORPORATION LIMITED
HEAD OFFICE
1 QUEEN'S ROAD CENTRAL,
HONG KONG

Best Regards,

Jason Wong

PLAINTIFF'S EXHIBIT 23

1 of 1

8/10/98 9:10 A

INTERNAL USE ONLY
QA FOLLOW UP: Y ☐ N ☐
OK TO LOAD: ☐

DEPOSITION EXHIBIT 4 5-31-01 BUTLER

FINGERHUT

Terms of Purchase

(04/13/98 Version)

DATE: 8/11/98 NEW: ✓ REVISED: ___, Supersedes: _____

Vendor: Pantalpha Enterprises Vendor #: _____

Buyer #: 19 Buyer Signature: Todd Duty Vendor Negotiator: Dan Mellis

REASON SETUP: Category Expansion ☒ New Category ☐ Unique/Exclusive Item ☒
Replacement Yes ☐ No ☒ If yes, vendor number being replace _____
Other: _____

1. PURCHASE ORDER

Payment terms (Re: Terms Worksheet to determine optimal agreement):
Letter of Credit ☒ Invoice ☐
Payment terms: 120 days ☐ 90 days ☐ 60 days ☐ 30 days ☐ Other_____
Discount (early pay) ____% ____days, net ____(i.e. - 2% 20 days, net 30)
Are terms associated with any other allowance? (i.e. - 90 days dating in lieu of RTV of returns) if so, details: _____
Are terms specific to product category(i.e. - Car stereo (90 days), Home stereo (60 days)) if so, details: _____
Any initial Hold Pay? ____$, ____% of initial order?

2. INBOUND FREIGHT

Collect (Fingerhut pays freight) ☒ Prepaid (Vendor pays freight) ☐
Will vendor quote price both ways? YES ☐ NO ☐

3. VOLUME REBATES/INCENTIVES? YES ☐ NO ☒

If yes - Type: straight % ____ multi-tier ☐ details: _____
We Debit? ☐ Vendor Credit? ☐
Timing: Monthly ☐ Quarterly ☐ End of Year ☐ Other ☐ Trigger date: _____
Special "one time" deals: state details, trigger dates, specific p.o.'s, etc.
- _____
- _____

4. ADVERTISING COOP AGREEMENT/DIRECT ALLOWANCE? YES ☐ NO ☒

If yes - Debit details: Timing: Monthly ☐ Quarterly ☐ Per Hit ☐
Special requirements: _____

5. VENDOR COMPLIANCE PENALTIES

Non-Exempt ☒ Exempt ☐ Special Conditions? _____

6. PHOTO SAMPLES

PLAINTIFF'S EXHIBIT 24

Supplied Free ☒ or will Vendor Invoice ☐

7. INVENTORY SALES GUARANTEE? YES ☐ NO ☒

All Product ☒ Initial PO? ☐ Test Items? ☐ RTV at Full cost?, less _____ % _____ $, In house

Any timing restrictions? _____ Return Freight - Prepaid ☐ Collect ☐

Obsolescence/Markdown allowance? 0 %

We Debit? ☐ Vendor Credit? ☐ Timing: Monthly ☐ Quarterly ☐ End of Year ☐

8. HAS VENDOR BEEN INFORMED ABOUT VENDOR COMPLIANCE REQUIREMENTS, ETC. AND THE INTERNET SITE INFORMATION? YES ☐ NO ☐

9. REWORK NEEDED

WILL FINGERHUT NEED TO CONDUCT "REWORK" PRIOR TO SELLING PRODUCT? YES ☐ NO ☒

If yes - Code ☐ Unit Rate $ _____ Packaging ☐ Unit Rate $ _____

Other ☐ Details (i.e., pull bounce backs, etc.): _____ Unit Rate $ _____

At whose expense? Vendor ☐ Buyer ☐

10. RETURNS DISPOSITIONING Direct Import

In-house ☒ RTV ☐

RTV agreement? Full credit ☐, less _____ %, less _____ $

Will vendor give us a "Blanket" RA#? YES ☐ NO ☐ If yes, _____

(A "Blanket" RA will save returns processing time/money)

Allowance in lieu of RTV _____ % collection details: _____

Debit destroy? ☐ Details of debiting: _____

Specific limitations on RTV? (i.e., defectives only?, "age" of item?) _____

Details: _____

Can we return partials? YES ☐ NO ☐ Will vendor bill us for missing parts? YES ☐ NO ☐

11. CSO (CUSTOMER SERVICE ORDERS)

WILL VENDOR SUPPORT US IN FULFILLMENT EFFORT? YES ☐ NO ☒

If yes - By:

Filling on a direct basis from customer ☐ Phone number/order form in product ☐

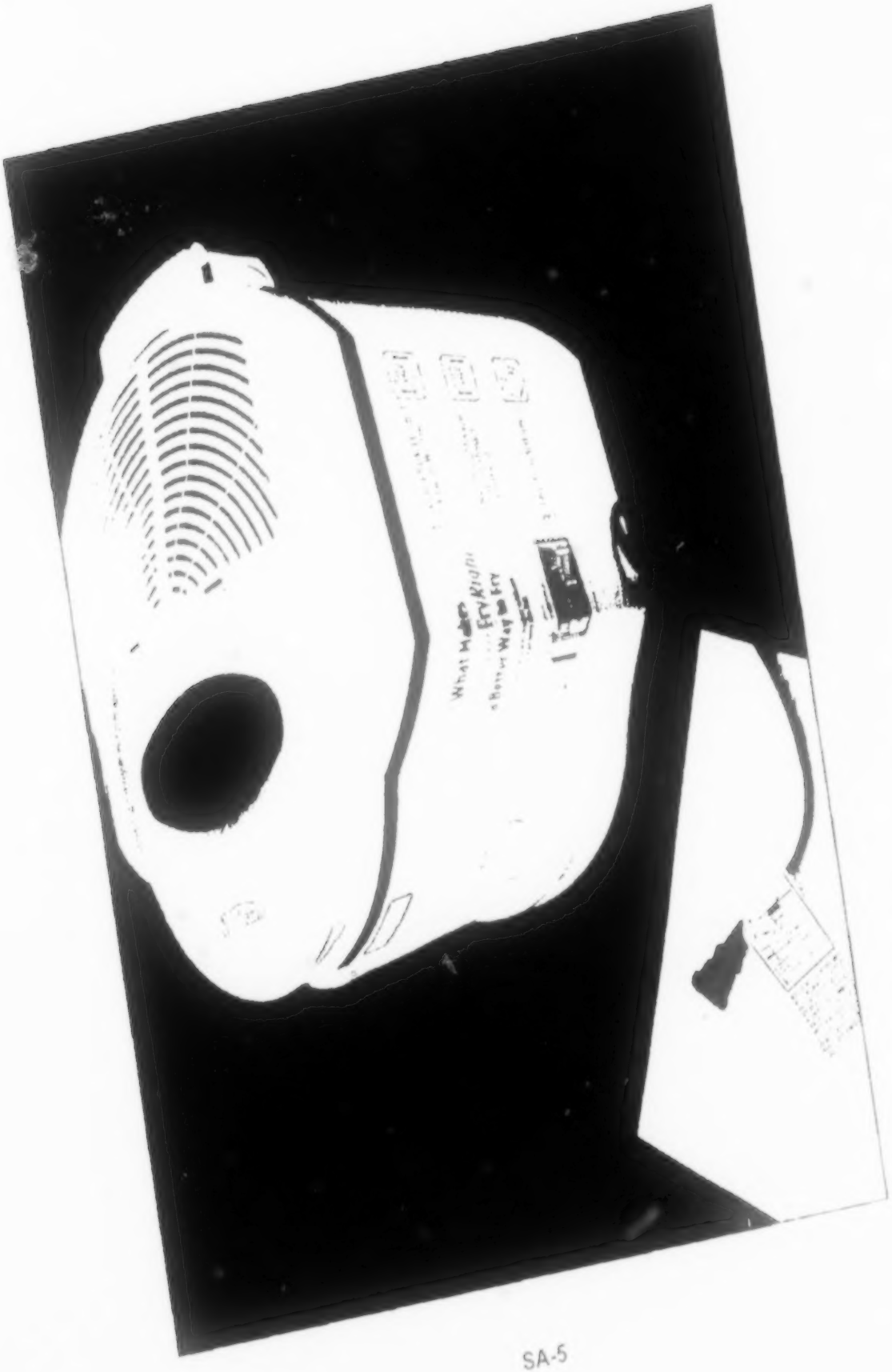
Filling on an indirect basis, through communicating via our Customer Service dept. ☐

By supplying free parts for our fulfillment ☐

Allowance _____ % _____ $/order

12. DROPSHIP? YES ☐ NO ☒

If yes, refer to Detailed dropship setup guideline—developed to assist in setting up an optimal deal. Re: flat fee vs. we pay postage, etc., etc.



Oster®



MODELS/MODELOS
MODÈLES/MODELOS 3244 & 3245

Instruction Manual and Recipe Booklet
FRYRIGHT™ DEEP FRYER

Mode d'Emploi et Livret de Recettes
FRITEUSE FRYRIGHT™

Manual de Instrucciones y Libro de Recetas
FREIDORA FRYRIGHT™

Manual de Instruções e Livro de
FRITADEIRA FRYRIGHT™

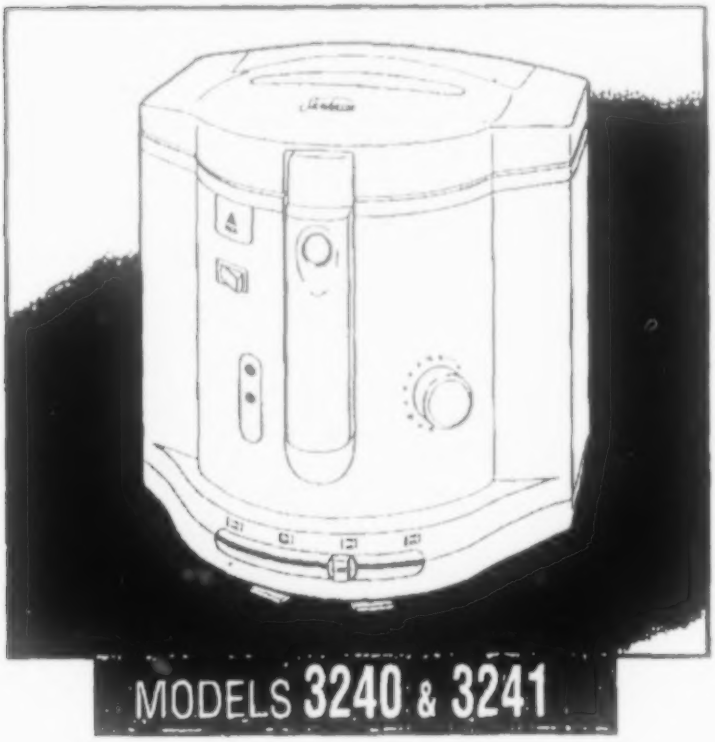


IMPORTANT SAFEGUARDS



- DO NOT MOVE THE DEEP FRYER WHEN OIL IS HOT OR DURING COOKING

Sunbeam

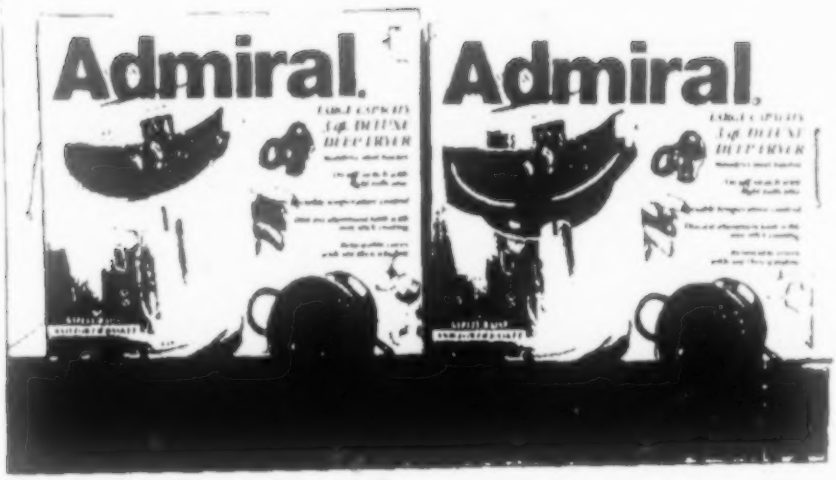


MODELS 3240 & 3241

Instruction Manual
FRYRIGHT™ DEEP FRYER



3. DO NOT MOVE THE DEEP FRYER WHEN OIL IS HOT OR DURING COOKING


Admiral
Admiral

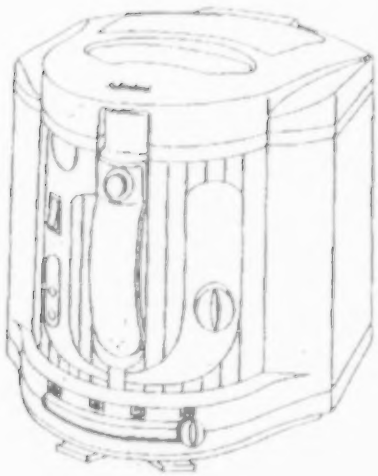

Admiral
Admiral

Admiral®

Deluxe Deep Fryer

Use & Care Manual

Household Use Only





IMPORTANT SAFEGUARDS

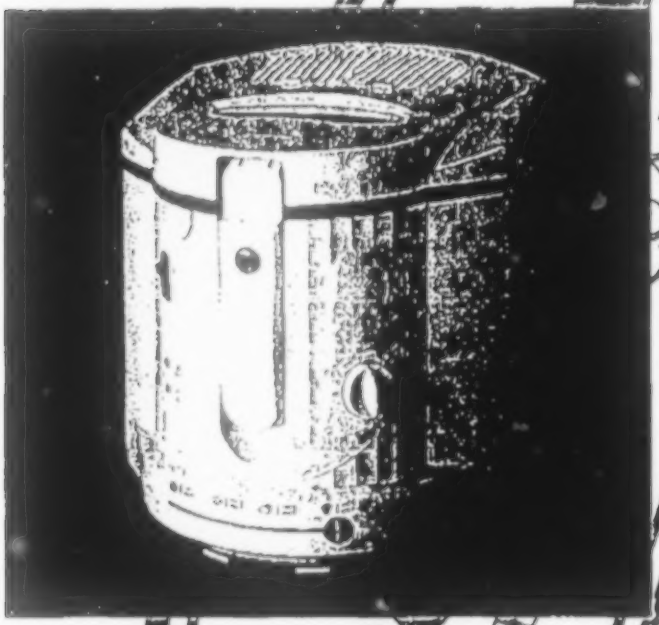


- Do not move the deep fryer when oil is hot or during cooking.



Owner's Manual

Deluxe Deep Fryer



19R7F

Chef's Mark
PREFERRED QUALITY

PLAINTIFF'S EXHIBIT

HOUSEHOLD USE ONLY

IMPORTANT SAFEGUARDS



• Do not move the deep fryer during use or when oil is still hot

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MARK LEVY
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DAVID L. BANNER
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PRIVILEGED AND CONFIDENTIAL

August 4, 1997

Mr. John Sham
PENTALPHA ENTERPRISES LIMITED
10/F Kin Teck Ind. Bldg.
26 Wong Chuk Hang Road
Aberdeen, Hong Kong

Re : Deep-Fat Fryer Right-to-Use Study

Dear Mr. Sham:

We have been asked to conduct a right-to-use study of the deep-fat fryer products developed by your firm, Pentalpha Enterprises Ltd.

After searching for possible relevant United States patents, we are happy to report that, in our opinion, it does not appear that the deep-fat fryers infringe any enforceable United States patent uncovered in our search.

In preparing our report, we have conducted an extensive search of the patent files of the United States Patent and Trademark Office (PTO). The PTO's Automated Patent System (APS) and Classified Search/Image Retrieval (CSIR) facilities were both used to locate all U.S. patents that are possibly relevant.

We are confident that we have obtained the closest art available, consisting of patents related to all aspects of deep-fat frying machines. It should be noted, however, that no search results can be guaranteed. Therefore, any right-to-use study can provide only an opinion of relative probability. In other words, we can ensure only that there is a good clearance probability for your system with respect to the prior art.

CONFIDENTIAL P 000001

DEFENDANT'S EXHIBIT C

PRIVILEGED AND CONFIDENTIAL

Description of Product

The product features an electrical, deep-frying appliance that cooks food uniformly. The frying appliance features a translationally movable frying basket, which allows for the cyclical immersion and extraction thereof, along with its food contents, into and out of heated oil. The translational movement of the basket ensures that food disposed therewithin does not shift during the immersion and extraction cycles.

Now referring to FIGURE 1, the electrical, deep-frying appliance 10 is illustrated. The appliance 10 comprises a fryer housing 11, which contains a frying basket 12. The frying basket 12 is disposed within an oil pan housing 14. The oil pan housing 14 is mounted for rotation upon a spindle 15 that is rotationally anchored to the bottom of the fryer housing 11 by nut 16, through hollow bore 17.

The frying basket 12 is shown in an upper, extracted position with respect to the oil pan 14. The basket 12 is movably supported by a parallel linkage 18, comprising links 18a and 18b that are rotationally anchored to a fixed flange 19 about pivot points A and B, respectively, and rotationally fixed to basket 12 at points C and D, respectively. The upper link 18a of the translational linkage 18 comprises an extension arm 22 anchored to a horizontally moveable rod 20. Rod 20 is horizontally slidable in a reciprocal fashion, as shown by arrows 21. The rod 20 is spring-biased (not shown) to the left. The horizontal, reciprocal movement of rod 20 to the right, against its spring biasing, forces the extension arm 22 to pivot about pivot point A, thereby forcing the link 18a to pivot downwardly about pivot point A also, as shown by arrow 24. Link 18b follows the motion of its companion link 18a; it also pivots in direction 24, since the parallel, translational links 18a and 18b of linkage 18 are movably tied together, and act in the well-known sense attributable to this type of linkage.

The frying basket 12 is caused to translationally move downwardly within the oil pan housing 14, as linkage 18 pivots about pivot points A and B, in direction 24. Thus, the frying basket 12 is caused to descend into the bottom of the oil pan housing 14 and immerse the food contained within the basket into the heated oil that is disposed in the bottom of the oil pan housing 14, as shown in FIGURE 3. During movement between its upper, retracted position (FIGURE 1) and its immersed position (FIGURE 3), the frying

arrows 51, 52 and 53, respectively. The lead drive gear 41 of the drive train 40 is driven by a worm 60 that is fixedly attached to the rotative shaft 61 of the drive motor 62.

The middle gear 42 of the gear drive train 40 is attached to a cam 46 that periodically comes into contact with switch 2, as gear 42 is caused to turn. Switch 2 is normally open; it is closed by the contact with the rotating cam 46. Switch 2 controls the movement of the basket from the upper, retracted position to its lower, immersed position within the oil pan housing 14. The description of the electrical controls, of which switch 2 is an integral part, is explained further hereinafter with respect to FIGURE 5.

Referring again to FIGURES 1 and 3, motor 62 is considerably offset to the left of the oil pan housing 14. The gear train 40 is insulated from the oil pan housing 14 by an insulative wall 50. These two features of the design allow the drive mechanism to run freely, prevent fouling by heated oil vapors, and keep the drive mechanism operatively cool.

Referring to FIGURE 5, the electrical circuit 100 of the deep-frying appliance 10 of this invention is shown. The circuit 100 allows the frying appliance 10 to operate in several different modes. The fryer appliance 10 can operate in an automatic, cyclic mode, wherein the basket 12 can automatically descend into and rise from the oil pan housing 14. When switch 2 is pushed downwardly, away from its spring biasing, a normally closed switch 3 is bypassed, which causes a short circuit of the sub-circuit 101 of the switch 3 motor control. This causes motor 62 to energize; it begins to operate continuously, thus causing the basket to cycle between its upper and lower positions.

At the beginning of the operative, cooking cycle, the basket may be caused to descend into the oil pan housing 14 by pushing the switch 2 once, upwardly, towards its spring. This single contact energizes the motor 62. The basket is caused to descend. As the gear train 40 continues to rotate, the cam 46 comes into contact with switch 2, thus cutting off the motor actuation and leaving the basket in its lower, immersed position. The second half of cam 46a pushes normally-closed switch 3 to the open position, cutting off the power to motor 62. Lamp 3 lights, showing that the appliance 10 is in a cooking cycle. At the end of the cooking cycle, switch 2 is pushed one more time in the spring direction to actuate the motor 62, thus causing the

basket 12 to rise to its non-immersed, upper position. The first half of the cam 46b pushes the normally-closed switch 3 to its open position, thus cutting off power to motor 62.

Switch 1 is pushed to start the cooking cycle and to furnish power to the sub-circuit 101. Lamp 1 lights, indicating that the cooking cycle is active.

Lamp 2 lights when power is furnished to the heater 76, which is used to heat the oil in the oil pan housing 14. The thermostat 74 automatically interrupts the power supplied to the heater 76 when the oil's cooking temperature is reached. When the temperature of the oil falls below cooking temperature, the thermostat re-closes the circuit to the heater 76.

Referring to FIGURE 6, an alternate embodiment is shown for the circuit 100 illustrated in FIGURE 5. The alternate circuit 200 allows the deep-fryer basket 12 to cycle between the upper and lower positions continuously. This is accomplished by means of timer switch 201. The user sets the timer switch 201 for a given frying time and then actuates switch 2 to close the circuit 204 feeding power to motor 62. The motor 62 now begins to rotate, causing the basket 12 to rise and fall continuously until the time set for the timer switch 201 runs out. At this point in time, the basket 12 continues to move, because motor 62 continues to receive power through the circuit 204, via the closed path provided by switch 3. However, when the basket 12 reaches the highest position, switch 3 opens circuit 204, and basket movement ceases at the high position. This allows the user to easily remove the food from the basket 12.

As aforementioned, the movement of the basket 12 is indicated by lamp 3. The constant cycling of the basket 12 causes food to fry intermittently during the timed cycle.

PRIVILEGED AND CONFIDENTIAL

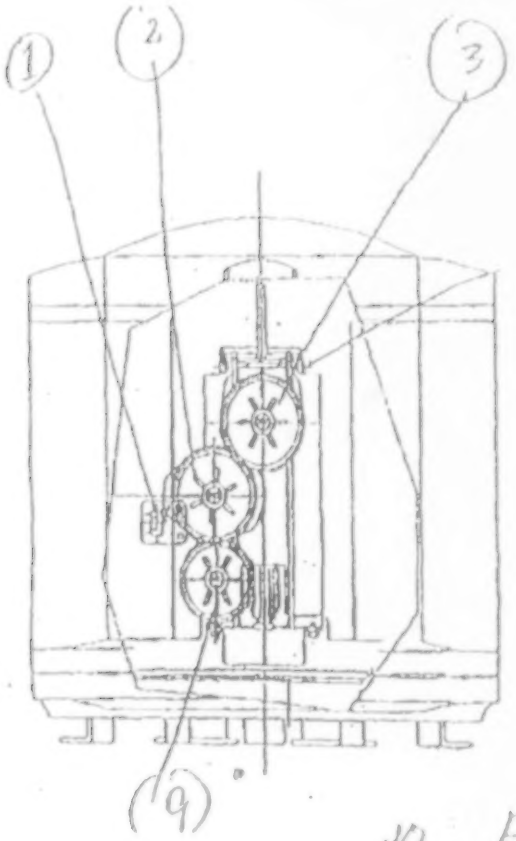
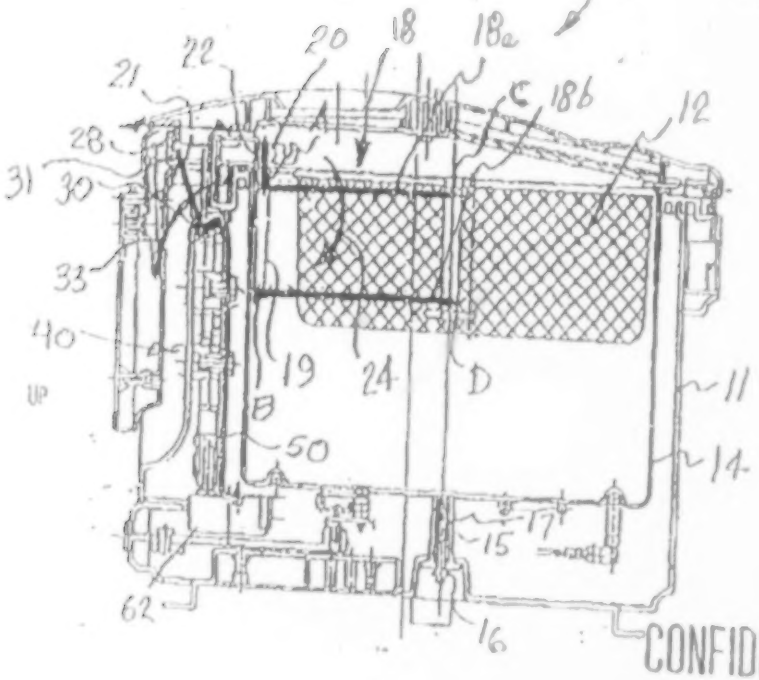


FIGURE 1



CONFIDENTIAL P000006

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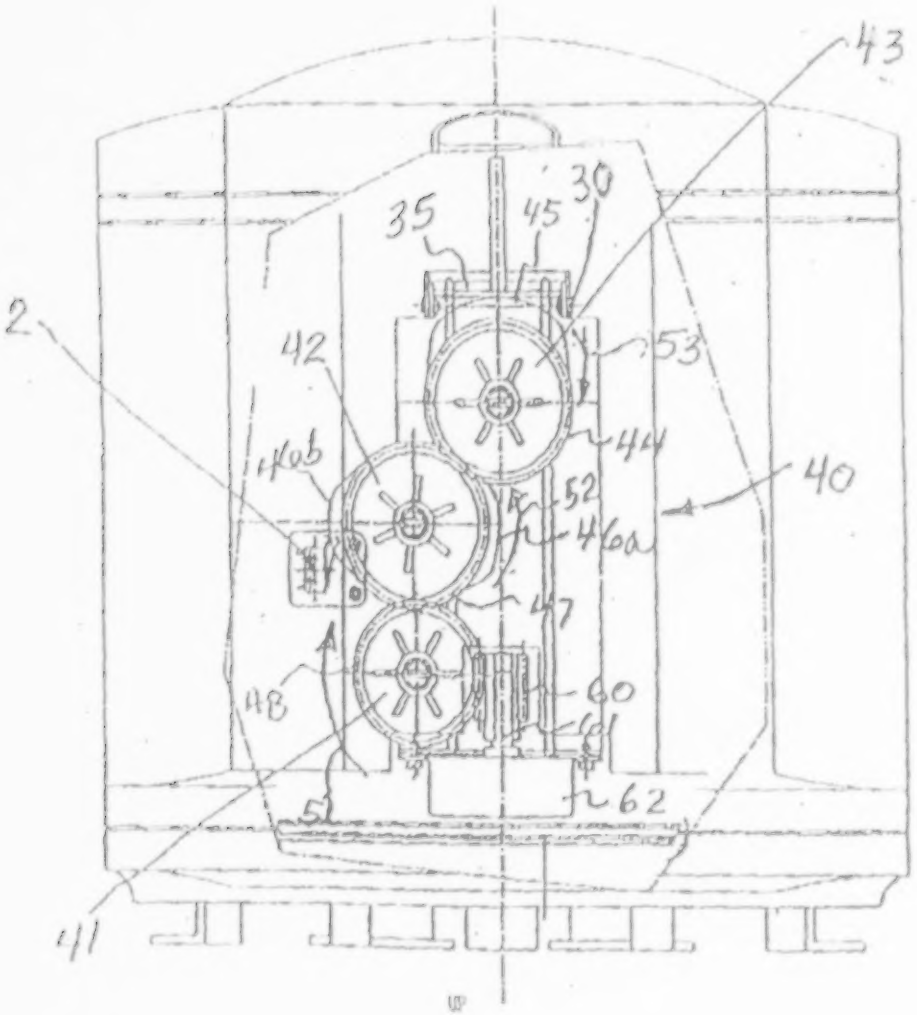


FIGURE 2

P000007

CONFIDENTIAL

PRIVILEGED AND CONFIDENTIAL

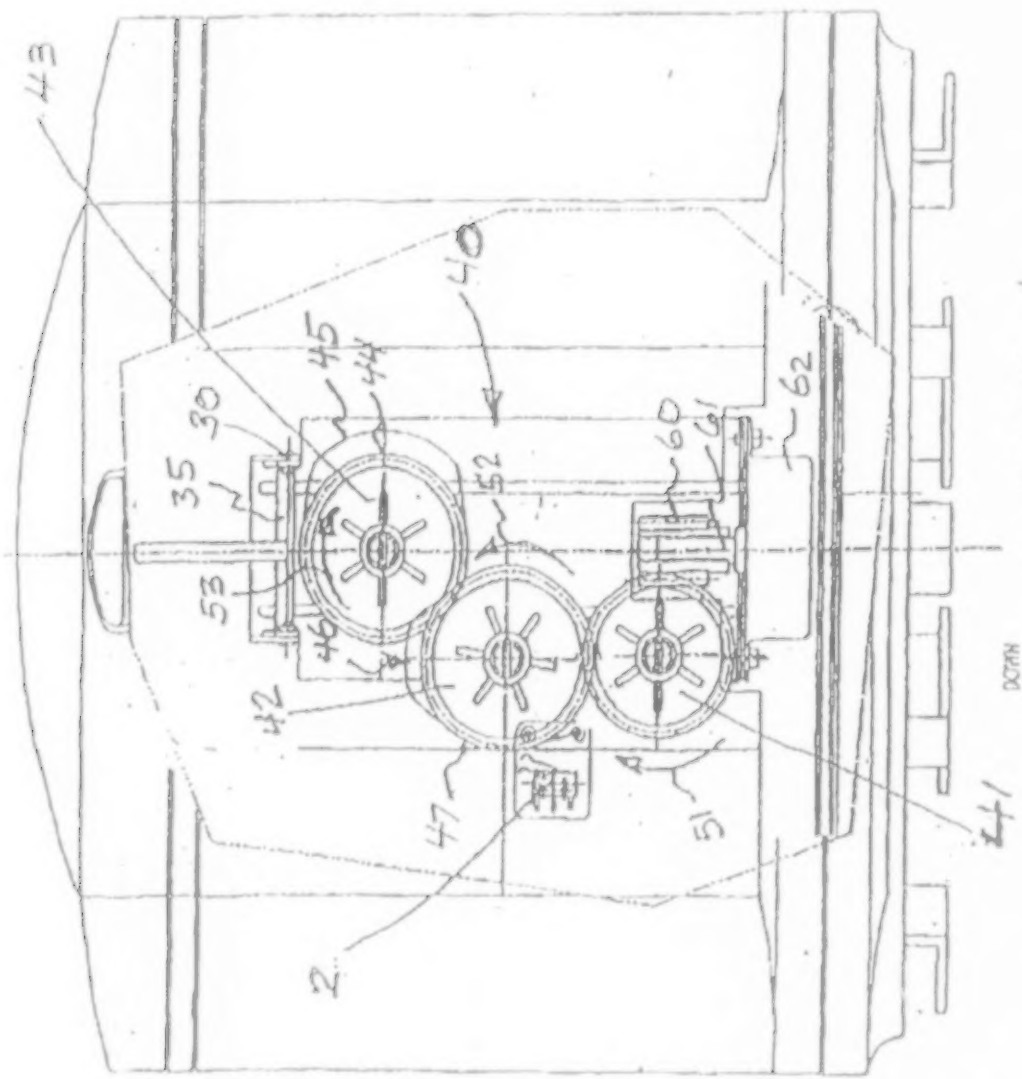


FIGURE 4

PRIVILEGED AND CONFIDENTIAL

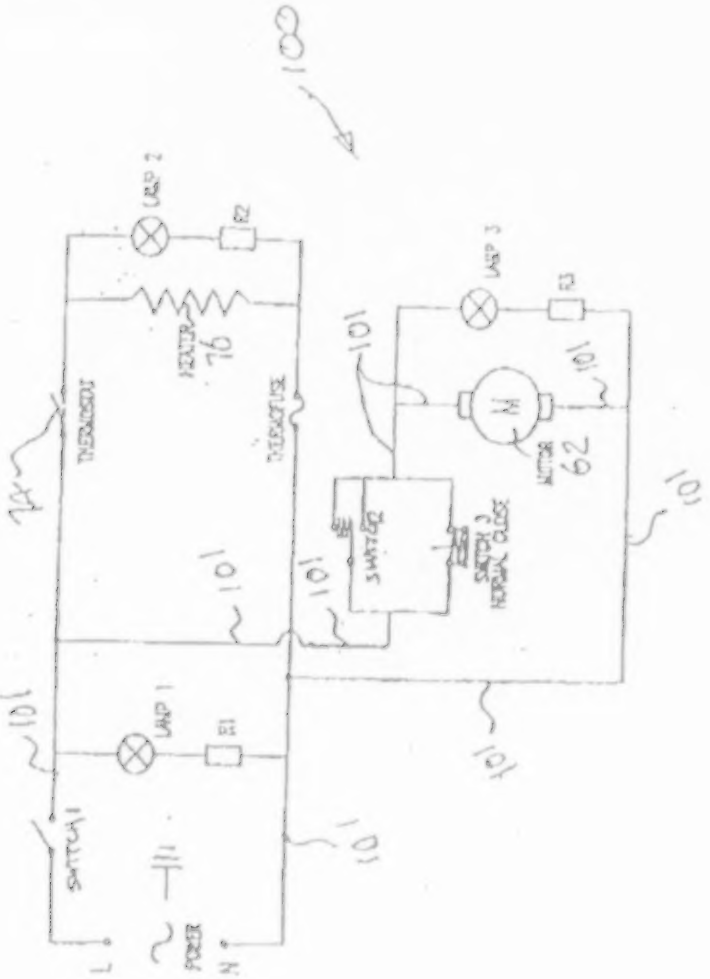


FIGURE 5

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In a right-to-use study, two steps determine whether a design could infringe a patent. The first step is to ascertain whether the patent is indeed valid and enforceable. If valid, the next step is to determine whether the current design infringes any of the claims. The question of validity depends upon a number of factors including whether the examination in the Patent Office was conducted properly and inclusively, and whether the device or system operates properly, as described in the specification.

In the analysis of patents, it is often found that claim language that appears to pose a problem may literally, in fact, be innocuous due to file wrapper estoppel, admissions of limitations made in prosecution. Also, claims should not be viewed in a vacuum; they must be read and interpreted in light of teachings expressed in the specification.

We have carefully analyzed every independent claim of every patent uncovered in our search. We are herewith providing all patents (first page) and abstracts along with the reasons (in bold) why the independent claims of <u>each</u> patent are not infringed.

4,238,997, Dec. 16, 1980, Apparatus for Blanching Sauerkraut

A series of rotatably arranged perforated sheet metal drums are proposed through which sauerkraut may be traversed in either a water or heated brine solution. A control system for heated brine is arranged so that the brine emitted from a heat exchanger passes through partitioned chambers in which each drum is arranged to rotate, the last of this series of drums adapted to receive the hottest solution and the brine thence traveling to the next adjacent drum in succession.
Receptacle for holding a supply of brine

4,250,803, Feb. 17, 1981, Deep Fryer

In a deep fryer of a compact, portable type comprising a vessel, a handle, which is mounted to the vessel, a basket, which is adapted to be lowered and raised within the basket, a cover, which fits removably onto the vessel so as to cover the vessel, and means for lowering and raising the basket within the vessel while the vessel remains covered by the cover, wherein the handle has opposite ends mounted

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pivotally to opposite sides of the vessel, an improvement is disclosed wherein the basket lowering and raising means comprises a pair of pins, each of which is attached to one of the ends of the handle so as to rotate as the handel is pivoted, and which are linked to the basket so as to lower and raise the basket within the vessel as the handle is pivoted oppositely.
Pair of pins

4,287,818, Sept. 8, 1981, Automatic Fryer for Breaded Products

Frying apparatus including a fry pot and rack handling means for inserting a vertical stack of frying racks into and withdrawing the frying racks from the fry pot is disclosed. The rack handling means includes a frying rack assembly and a rack support assembly movably suspended with respect to the open mouth of the fry pot. The rack support assembly includes portions defining an open channel detachably engaging the frying rack assembly and means for guiding the frying rack assembly for movement from and elevated position above the open mouth of the fry pot wherein the frying rack assembly may be inserted into the channel prior to a cooking cycle or withdrawn from the channel prior to a cooking cycle or withdrawn from the channel after completion of the cooking cycle, to an immersed position inside of the fry pot wherein food portions previously loaded onto the frying rack assembly may be fried during a cooking cycle. In a preferred embodiment, the frying rack assembly comprises an open basket frame and a plurality of frying racks stacked in vertical relation within the basket frame, and the rack support assembly comprises a pair of support arms pivotally coupled to the frying rack assembly defining a pantograph structure which stabilizes the movement of the frying rack assembly as it is inserted into or withdrawn from the fry pot.
a) Plurality of frying racks b) top grill

4,508,026, Apr. 2, 1985, Basket Moving Mechanism for Deep Fryer

Deep fat fryer having plurality of food-supporting baskets, individual motor and switch controls for raising and lowering baskets mounted in forward lower portion of fryer casing to facilitate servicing thereof.
Vertically slidable bracket support

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4,549,527, Oct. 29, 1985, Solid State Temperature Controller

A temperature controller for a deep fat fryer including a temperature sensing circuit that determines the temperature of cooking oil in the deep fat fryer and which is connected to a temperature control circuit that controls the deep fat fryer heat source in providing heat to the cooking oil in response to a set temperature from an external input device. The control circuit also includes an anticipation circuit that variably modulates the heating source before the cooking oil temperature approaches the set temperature. The temperature control circuit further includes a resistor divider network that provides selected voltages representing reference temperatures and which are input to several operational amplifiers for controlling the heat source. Anticipation circuit means

4,586,429, May 6, 1986, Food Dispenser

Automatic food dispensing apparatus comprises a hopper, a rotatable cylinder having a recess for receiving and dispensing a predetermined amount of food to a food container in the form of a perforated metal rectangular container, the container being movable between a rest position, a first position in which the container is disposed in a food cooker for cooking the food dispensed in the container, and a second position in which the container is held above a food dispenser so that the food in the container is dispensed to a cup. The container has a pivotable base and spring clips along one side which hold the base in place. In the first position in the cooker, a spring metal strip holds the base in place and defines the lower limit of movement of the base. In the second position in the cooker, the clips engage a metal bar for releasing the clips and the base.
Means for metering a predetermined amount of food

4,593,170, Jun. 3, 1986, Food Frying Apparatus

A food frying apparatus comprises a heating chamber, a heater, a magnetron, a food table, a lifting apparatus and a control apparatus. Cooking oil is contained in a lower portion of the heating chamber. The cooking oil is heated to a higher temperature by the heater. After placing food in the table, the table is lowered by the lifting apparatus so that the food is dipped into the cooling oil, and frying of

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the food is started. If and when the table is lowered, irradiation of a microwave from the magnetron is started and the food is internally heated. The control apparatus controls the temperature of said cooking oil, a time period for dipping the food into the cooking oil and a time period for supplying the microwave. Therefore, in accordance with the present invention, the food can be dipped into the cooking oil with high temperature automatically and for an arbitrary time period and in addition, irradiation of the microwave can be made for an arbitrary time period.
Microwave supplying means

4,685,386, Aug. 11, 1987, Automatic Apparatus for the Continuous Cooking of Individual Food Portions by Boiling or Frying

Automatic apparatus for the continuous cooking of individual food portions. The apparatus contains suspended baskets into which the food is placed, and the baskets are guided on a horizontal wheel. The wheel is rotated such that the baskets are moved through a container of boiling liquid to cook the food. After the baskets are withdrawn, the food is emptied onto plates on another rotating wheel contained at a lower level than the first horizontal wheel. Various ways of emptying the containers are taught including turning the containers over, and constructing the containers with bottoms that slide so as to allow the food to fall onto the plate. In a further embodiment, A lower guide ramp is used to secure the bottom of the containers. The ramp is discontinuous at the place where the food is to be emptied onto the plates.
a) Basket carrying wheel b) guiding ramp

4,719,850, Jan. 19, 1988, Automatic Cooking Apparatus

An apparatus for automatically deep-fat frying food products. A vat containing cooking medium is associated with a heater for heating the cooking medium. A plurality for baskets for containing food products are pivotally mounted on a spider-like hub member for movement between cooking and discharge positions. A drive mechanism is coupled to the hub member for rotating the hub member and the baskets. A cam mechanism is associated with the baskets and the vat for moving the baskets between the cooking and discharge positions as the baskets are rotated about the vat.
a) Plurality of food holding members

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4,732,081, Mar. 22, 1988, Device for Producing Fried Food

A process for producing a fried food, which comprises placing a starting material suitably applied with a necessary pretreatment into a fryer filled to an intermediate level with heated oil, moving the material vertically to repeat the operation of dipping the material into the oil and withdrawing the material above the oil surface for several minutes, then allowing the material to rest in the oil for a while and finally draining off the oil by vibrating the material with small amplitudes above the oil. This process can be carried out by using a device comprising a fryer vessel equipped with a sealing lid at the upper portion on one side, a pipe for feeding heated oil which feeds the heated oil from an oil form an oil heater into said fryer vessel, a return pipe which returns used oil from said fryer vessel through an oil filter to the oil heater, a level gauge for monitoring the oil level of the heated oil filled to an intermediate level in the fryer vessel, an air cylinder which drives a waggle frame housed within the fryer vessel vertically to dip the frame into the oil or withdraw the frame above the oil surface and a starting material case housed within the waggle frame so as to be freely dischargeable by opening the above sealing lid. Vacuum generating means

4,785,725, Nov. 22, 1988, Automatic Cooking Machine

An improved automatic french frying machine and method uses a supply of cooking oil which remains in a cooking vat during normal operation and is heated directly in the cooking vat. A system of thermostats combines with a heating element within the cooking vat to ensure proper cooking temperature and operation. An automatic initialization and monitoring system ensures safe startup and operation. Preferred embodiments also include an automatic flushing cycle which is activated at predetermined intervals to clean the cooking vat and replenish the cooking oil within the vat. A specially shaped cooking vat ensures that food particles will be removed from the vat during the flushing cycle. Oil degradation is minimized by either an open-topped cooking vat or a cooking vat having a lid which remains open during cooking.
a) Automatically dumping the food b) fire extinguisher

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4,852,471, Aug. 1, 1989, Semiautomatic Frying Machine and Air Filter Apparatus Therefor

Disclosed is a semiautomatic frying apparatus including a food carrying basket having a forward mounting lip and a rearward handle. The apparatus includes a basket-supporting shaft having a lip-engaging cradle for mounting the basket to the shaft. Disposed beneath the shaft, in a position to receive the basket upon rotation of the shaft, is a vessel holding heated cooking medium such as oil. A plate-like heater disposed beneath the vessel in heating contact therewith includes a bottom surface having a recess for mounting one or more temperature sensors, the recess opening into an airflow cavity. The frying apparatus is disposed within a cabinet and a fan and filter, also disposed within the cabinet, provides an air flow therethrough. A door connected by linkage to the basket-supporting shaft selectively blocks air flow through the cavity beneath the heating plate and when opened to an unblocking position, purges heated air from the recess air, providing compensation for the temperature sensors therein. Also disclosed is an air filter consisting of a box-like container, the endwalls of which are slotted at their outer edges for flow through the container. Disclosed within the container is a central internal wall slotted at its center to allow air flow therethrough. Disposed between the central wall and either endwall is a pad of filter media. The air flow is constrained to move between the major surfaces of the filter media to prolong the residence time and improve contact between the air flow and the filter media.
Forwardly extending, overhanging mounting lip

4,898,091, Feb. 6, 1990, Self Venting Food Frying Apparatus

Self venting food frying apparatus is disclosed which provides apparatus which is capable of deep frying small portions of various food products without need for external venting. In one embodiment, the food frying apparatus includes an upright cabinet with a fan assembly mounted to exhaust air through the top of the cabinet while drawing air in through and from the lower portion of the cabinet. A removable sealing system and a removable one piece filter is in the air flow path to remove smoke, odors and particulate matter from the air before being exhausted back into the room. The removable filter includes flat lying layers of paper and activated charcoal configured as an integral unit.

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A container for holding a supply of cooking oil is located in the lower portion of the cabinet. Spill tray, oil container and heating element are configured as a fully removable unit. Mechanism is provided for automatically lowering a cooking basket, with food therein, into the cooking oil for a predetermined time and then raised the cooking basket from the oil. Control systems are configured as a removable integral unit. Self-diagnostic features are built into the control systems.
Spill tray system

4,901,633, Feb. 20, 1990, Rotating Oblique Basket Fryer for Cyclic Immersion Cooking

A deep fryer apparatus particularly suitable to home use with a rotatable basket rotating within tray. Both the basket and the tray can be removed from a fixed tray within the housing. The axis of rotation of the basket is greatly inclined with respect to an oil bath. The bath is heated by adequate heaters, and the apparatus is monitored by control devices. The fryer features high overall performance and low operating costs. This is due in particular to the small quantity of oil needed to form the oil bath, which is about one-half what is generally necessary, and to the reduced cooking time required as a result of the progressive and repeated elimination of food moisture.
Rotatable basket

4,951,558, Aug. 28, 1990, Basket Lifting Mechanism for Cooking Pot

An apparatus for fastening on a cooking pot raises and lowers a basket into the pot under the control of a temperature sensor and timer. The lifting and lowering mechanism includes a hollow outer rod, the inner rod being driven by a motor. Various arrangements of controls, housing shapes, and a fastener to the cooking pot are provided, as is a stirring mechanism which plugs in place of the lifting mechanism.
Lifting motor dependent on temperature of pot

5,018,438, May 28, 1991, Cooking and Cooling Transfer Apparatus at Will for Automatic Introduction and Evacuation of Containers which Contain Foods or Products having a Variable Duration of Cooking and Cooling

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An apparatus for preparing foods for predeterminable period of time. One embodiment of the apparatus is for cooking; another is for refrigeration. The apparatus includes either a cooking container or a refrigeration container, a conveyor for carrying food products to and from this container, and a robot assembly for removing food products from the conveyor, inserting them into the container, extracting them from the container after the predetermined cooking or refrigeration period, and returning them to the conveyor. The robot assembly is programmable to extract and return these food products after cooking or refrigeration for a predeterminable period of time.
Refrigeration unit

5,027,697, Jul. 2, 1991, Rotating Oblique Basket Fryer for Cyclic Immersion Cooking

A deep fryer apparatus particularly suitable to home use with a rotatable basket rotating within tray. Both the basket and the tray can be removed from a fixed tray within the housing. The axis of rotation of the basket is greatly inclined with respect to an oil bath contained in tray, so that the food contained in the basket is cyclically and progressively immersed in the oil bath. The bath is heated by adequate heaters, and the apparatus is monitored by control devices. The fryer features high overall performance and low operating costs. This is due in particular to the small quantity of oil needed to form the oil bath, which is about one-half what is generally necessary, and to the reduced cooking time required as a result of the progressive and repeated elimination of food moisture.
Rotatable basket

5,033,162, Jul. 23, 1991, Hinge for the Cover of a Cooking Vat

A hinge for a cover of a cooking vat, comprising an axle mounted on a bearing secured to the vat and on which pivots the cover, as well as at least one compressible coil spring whose one end is secured to the cover and whose other end is connected to the vat. The spring comprises a braking device which comprises a first and a second element connected for relative rotation, respectively to the ends of the spring and comprising couping means having cam surfaces for axial driving and for braking adapted to compress the spring so as to obtain a shock absorption at the end of the opening movement of the cover. The hinge is applicable particularly

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to the covers of electric deep fat fryers.
Braking means

5,165,329, Nov. 24, 1992, Electric Deep Fat Fryer

An electric deep fat fryer comprising a pan for containing a cooking bath, an electric heating resistance, and a basket for foodstuff to be fried, the basket being adapted to occupy either a lowered position in which the pan is immersed in the bath or an elevated position in which the basket is maintained above the bath. Mechanism is provided for lowering and raising the basket and the timer are driven by a single motor. The control device comprises an automatic selector controlled by a control member of the timer and by the position of the basket, so as to drive either the timer when the basket occupies its lowered position, or the mechanism for lowering and raising the basket. Particular utility in household deep fat fryers.
A single motor

5,168,797, Dec. 8, 1992, Reciprocally Vacuumized and Pressurized Multi-Purpose Food Processing Apparatus

A reciprocally vacuumized and pressurized multipurpose food processing apparatus provided with a mesh basket in which all kinds of to-be-processed food can be received and that is plunged into the oil or other kinds of special fluid received in a frying pan for soakage or blanching especially applied to green vegetables or fruits; during the process a reciprocally applied pressure and vacuum are exerted thereto so as to make the soakage process faster and better; and in the meanwhile, the mesh basket can be moved in an up and down manner by a pneumatically operated cylinder and can be continually rotated in one direction for stirring purpose via a motor, making the soakage even. The soaked food is then fried with oil with the mesh basket moved up and down and turned continually under a vacuum state; afterward, the fried food is reciprocally subject to a pressure and vacuum state and de-oiled via a centrifuge.
a) Vacuumized b) pressurized

5,243,898, Sept. 14, 1993, Pressurized Fryer Device

A pressurized fryer device adapted to continuously carry out the steps of feeding oil of a predetermined temperature from an oil heater into a pressurized fryer chamber, placing a

material to be treated into the oil, frying the material under pressure for a predetermined time, taking out the fried material, returning used oil through a filter to an oil heater, and feeding the oil heated to a predetermined temperature in a preliminary tank into the above pressurized frying chamber, and frying the material under pressure for a predetermined time.
Pressurized fryer device

5,249,510, Oct. 5, 1993, Self Venting Automatic Food Frying and Dispensing Apparatus

Self venting automatic food frying and dispensing apparatus is disclosed which provides apparatus which is capable of deep frying small portions of various food products without the need for external venting and without exposing the operator to hot oil. In one embodiment, the food frying apparatus includes an upright cabinet with a fan assembly mounted to exhaust air through the top of the cabinet while drawing air in through and from the lower portion of the cabinet. A removable sealing system and a removable one piece filter is in the air path to remove smoke, odors and particulate matter from the air before being exhausted back into the room. The container for holding a supply of cooking oil is configured to minimize splashing during cooking and is a fully removable unit. Mechanism is provided for automatically loading food basket, lowering basket into cooking oil for a predetermined time and then raising the cooking basket to an unloading position and discharging the food product into a waiting receptacle. Self diagnostic features are built into the control system.
a) Blower means b) airtight seal

5,367,949, Nov. 29, 1994, Automated Ventless Deep Fryer

An automated deep frying system includes a refrigerated food storage compartment having a portion controller and dispenser, an isolated cooking chamber having a frying vessel and a food basket which is movable to a variety of preselected positions for loading, cooking and dispensing the food, and an air purifier including a flat cold surface for isolating the by-products of the frying process. The system also includes a microprocessor controller which is programmed for the system operation, including automatic dispensing, preparation and serving of preselected portions of food in response to an operator's input, as well as

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energy efficient control of the refrigerated food storage compartment and the air purifier cold plate.
Refrigerated food storage compartment

5,379,684, Jan. 10, 1995, Deep Fryer

A deep fryer has a vessel in which cooking medium such as fat or oil is contained and a heater to heat the medium to a cooking temperature. A basket is provided for carrying the food to be cooked. The basket is carried on a transport means which raises it out of the cooking medium and lowers it back in again at least one time during the cooking cycle. An embodiment is disclosed in which the basket is detachably mounted on a vertical side on the wall of the vessel. The side is driven via transmission means by a stepper motor. A microprocessor-based controller determines the number and the timing of the raising and lowering operations.
Means of controlling number of cycles

5,469,778, Nov. 28, 1995, Fryer Basket Lift

An apparatus for raising and lowering cooking baskets in a commercial deep-fat fryers which includes a basket support carried by a lift assembly which is vertically reciprocated along a guide track by a timed lift mechanism.
Guiding basket vertically within the tub

5,586,486, Dec. 24, 1996, Automated Deep Fryer

An automated deep frying system includes a refrigerated food storage compartment having a portion controller and dispenser, and isolated cooking chamber having a frying vessel and a food basket which is movable to a variety of preselected positions for loading, cooking and dispensing the food, and an air purifier including a smooth cold surface for isolating the by-products of the frying process. The system also includes a microprocessor controller which is programmed for the system operation, including automatic dispensing, preparation and serving of preselected portions of food in response to an operator's input, as well as energy efficient control of the refrigerated food storage compartment and the air purifier cold plate.
a) Refrigerated food storage b) air purifier

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CONCLUSION

We have not found any claim of any of the aforementioned U.S. patents that reads on the Pentalpha deep-fat fryer products. Moreover, with respect to the Doctrine of Equivalents, we have not found any components in the foregoing patent claims that are structurally equivalent to elements in the Pentalpha products to the extent that a claim could be considered to read on the products.

Very truly yours,
SALZMAN & LEVY

Mark Levy

ML:jc
Enclosures

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US005243898A

United States Patent [19]

Sakuma

[11] Patent Number: 5,243,898

[45] Date of Patent: Sep. 14, 1993

[54] PRESSURIZED FRYER DEVICE

[76] Inventor: Ken Sakuma, 793, Hachigasaki, Matsudo-shi, Chiba, Japan

[21] Appl. No.: 754,876

[22] Filed: Sep. 6, 1991

[30] Foreign Application Priority Data

Jan. 21, 1991 [JP] Japan 3-019183

[51] Int. Cl.[5] A47J 37/12

[52] U.S. Cl. 99/408; 99/407; 99/330; 426/438

[58] Field of Search 99/407, 408, 330, 336, 99/342, 351, 404, 426/438, 126/374, 351

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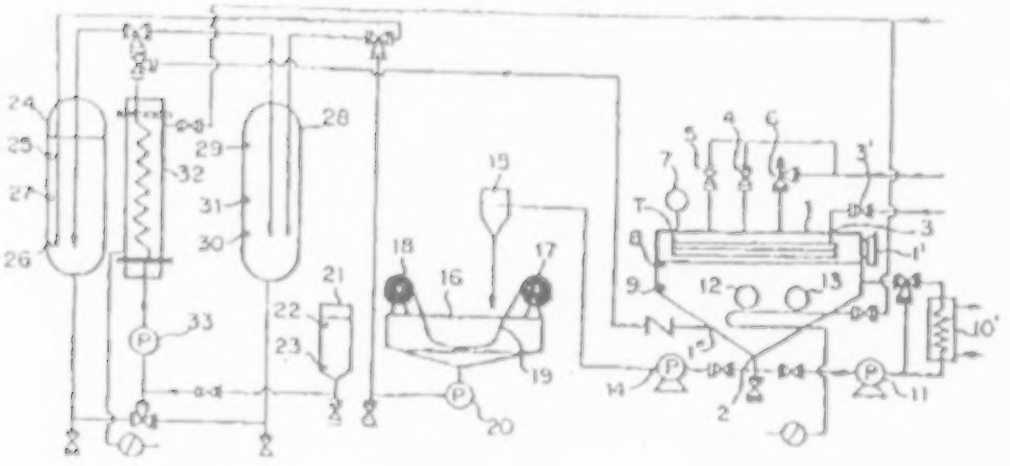
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Attorney, Agent, or Firm—Armstrong, Westerman, Hattori, McLeland & Naughton

[57] ABSTRACT

A pressurized fryer device adapted to continuously carry out the steps of feeding oil of a predetermined temperature from an oil heater into a pressurized fryer chamber, placing a material to be treated into the oil, frying the material under pressure for a predetermined time, taking out the fried material, returning used oil through a filter to an oil heater, and feeding the oil heated to a predetermined temperature in a preliminary tank into the above pressurized frying chamber, and frying the material under pressure for a predetermined time.

1 Claim, 7 Drawing Sheets



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US005168797A

United States Patent [19]

Wang

[11] Patent Number: 5,168,797

[45] Date of Patent: Dec. 8, 1992

[54] RECIPROCALLY VACUUMIZED AND PRESSURIZED MULTI-PURPOSE FOOD PROCESSING APPARATUS

[76] Inventor: Yih-Te Wang, No. 65, Alley 1, Lane 230, Chung Cheng Rd., Ta Lin Chen, Chiayi Hsien, Taiwan

[21] Appl. No.: 881,207

[22] Filed: May 11, 1992

[51] Int. Cl.[5] A47J 37/12

[52] U.S. Cl. 99/342; 99/330; 99/348; 99/403; 99/409; 99/410; 99/472

[58] Field of Search 99/330, 342, 348, 403-405, 99/407-411, 416, 417, 426, 427, 472; 426/519, 520, 523, 438; 366/226, 234

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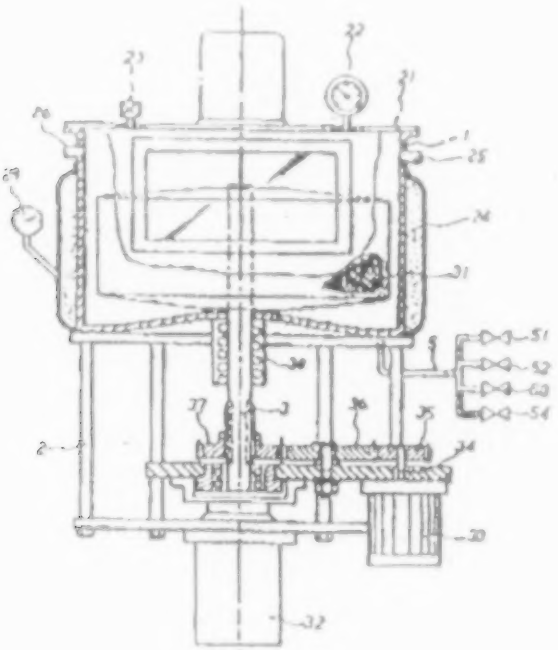
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Primary Examiner—Timothy F. Simone
Attorney, Agent, or Firm—Bacon & Thomas

[57] ABSTRACT

A reciprocally vacuumized and pressurized multipurpose food processing apparatus provided with a meshy basket in which all kinds of to-be-processed food can be received and that is plunged into the oil or other kinds of special fluid received in a frying pan for soakage or blanching especially applied to green vegetables or fruits, during the process a reciprocally applied pressure and vacuum are exerted thereto so as to make the soakage process faster and better; and in the meanwhile, the meshy basket can be moved in an up and down manner by a pneumatically operated cylinder and can be continually rotated in one direction for stirring purpose via a motor, making the soakage even. The soaked food is then fried with oil with the meshy basket moved up and down and turned continually under a vacuum state; afterward, the fried food is reciprocally subject to a pressure and vacuum state and de-oiled via a centrifuge.

3 Claims, 3 Drawing Sheets



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US005165329A

United States Patent [19]

Jacob et al.

[11] Patent Number: 5,165,329

[45] Date of Patent: Nov. 24, 1992

[54] ELECTRIC DEEP FAT FRYER

[75] Inventors: Robert C. J. Jacob; Francois J. Lucas, both of Cacu; Jean V. Mirici, Corneilles-Le-Royal, all of France

[73] Assignee: Moulinex (Societe Anonyme), Bagnolet, France

[21] Appl. No.: 709,018

[22] Filed: May 31, 1991

[30] Foreign Application Priority Data

Jan. 12, 1990 [FR] France 90 07283

[51] Int. Cl.[5] A47J 37/12

[52] U.S. Cl. 99/336; 99/407; 99/410

[58] Field of Search 99/407, 410, 336, 404, 99/411, 325, 334, 335, 352, 353, 403, 412, 413, 444, 328, 327, 337; 74/3.54, 475/149, 254, 331, 158, 151, 223, 226, 332, 134/135

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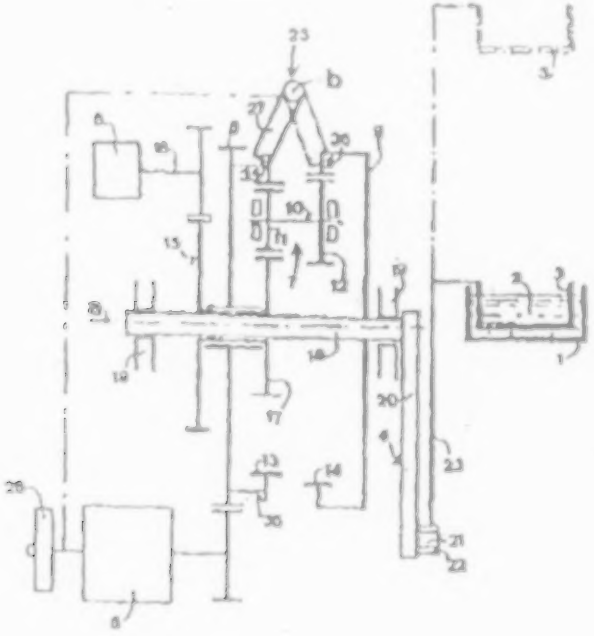
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Primary Examiner—Philip R. Coe
Assistant Examiner—Tony Soohoo
Attorney, Agent, or Firm—Young & Thompson

[57] ABSTRACT

An electric deep fat fryer comprising a pan (1) for containing a cooking bath (2), an electric heating resistance, and a basket (8) for foodstuff to be fried, the basket being adapted to occupy either a lowered position in which the pan is immersed in the bath or an elevated position in which the basket is maintained above the bath. Mechanism (4) is provided for lowering and raising the basket, controlled by a control device comprising a timer (6). The mechanism for lowering and raising the basket and the timer are driven by a single motor (6). The control device comprises an automatic selector (25) controlled by a control member (26) of the timer and by the position of the basket, so as to drive either the timer when the basket occupies its lowered position, or the mechanism for lowering and raising the basket. Particular utility in household deep fat fryers.

6 Claims, 4 Drawing Sheets



CONFIDENTIAL P000025

United States Patent [19]

Jacob et al.

[11] Patent Number: 5,033,162

[45] Date of Patent: Jul. 23, 1991

[54] HINGE FOR THE COVER OF A COOKING VAT

[75] Inventors: Robert C. J. Jacob; Sylvain A. B. Gilfard, both of Cormeilles-le-Royal, France

[73] Assignee: Moulinex (Societe Anonyme), Bagnolet, France

[21] Appl. No.: 534,021

[22] Filed: Jun. 6, 1990

[30] Foreign Application Priority Data

Jul. 7, 1989 [FR] France 89 09211

[51] Int. Cl.[5] E05F 1/08

[52] U.S. Cl. 16/303; 16/306; 16/342

[58] Field of Search 16/306, 307, 82, 85, 16/308, 341, 342

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Primary Examiner—Kurt Rowan

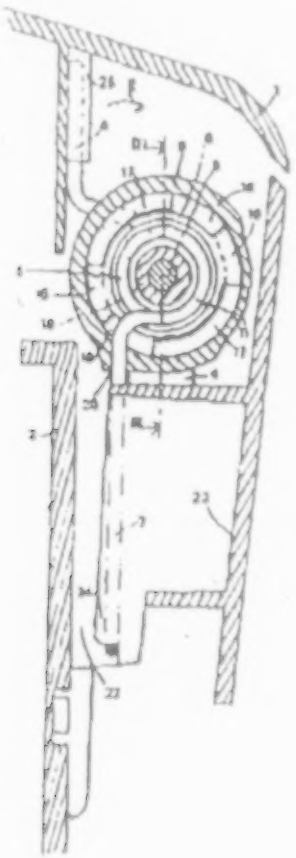
Assistant Examiner—Chuck Y. Mah

Attorney, Agent, or Firm—Young & Thompson

[57] ABSTRACT

A hinge for a cover of a cooking vat, comprising an axle (3) mounted on a bearing (4) secured to the vat and on which pivots the cover, as well as at least one compressible coil spring (5) whose one end (6) is secured to the cover (1) and whose other end (7) is connected to the vat (2). The spring (5) comprises a braking device which comprises a first and a second element (8 and 9) connected for relative rotation, respectively to the ends (6, 7) of the spring and comprising coupling means having cam surfaces (12, 13) for axial driving and for braking adapted to compress the spring (5) so as to obtain a shock absorption at the end of the opening movement of the cover. The hinge is applicable particularly to the covers of electric deep fat fryers.

7 Claims, 2 Drawing Sheets



CONFIDENTIAL P000026

United States Patent [19]

De Longhi

[11] Patent Number: 5,027,697

[45] Date of Patent: * Jul. 2, 1991

[54] ROTATING OBLIQUE BASKET FRIER FOR CYCLIC IMMERSION COOKING

[75] Inventor: Giuseppe De Longhi, Treviso, Italy

[73] Assignee: De Longhi s.p.a., Treviso, Italy

[*] Notice: The portion of the term of this patent subsequent to Feb. 20, 2007 has been disclaimed.

[21] Appl. No.: 541,090

[22] Filed: Jun. 20, 1990

Related U.S. Application Data

[60] Continuation of Ser. No. 426,053, Oct. 25, 1989, abandoned, which is a division of Ser. No. 101,446, Sep. 28, 1987, Pat. No. 4,901,633.

[30] Foreign Application Priority Data

Oct. 3, 1986 [IT] Italy 39446 B/86

[51] Int. Cl.[5] A47J 37/12

[52] U.S. Cl. 99/409; 99/348; 99/410

[58] Field of Search 99/340, 348, 330, 339, 99/403-411, 425-427, 219/389, 214, 403, 411, 438, 366/239, 240, 216

[56] References Cited

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Primary Examiner—Timothy F. Simone

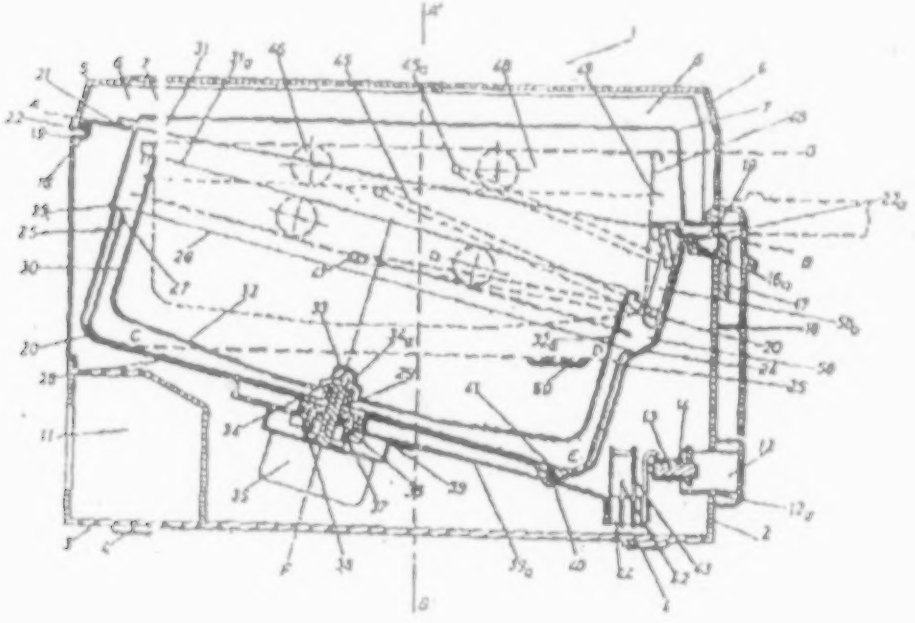
Attorney, Agent, or Firm—Rosen, Dainow & Jacobs

[57] ABSTRACT

A deep fryer apparatus particularly suitable to home use with a rotatable basket rotating within tray. Both the basket and the tray can be removed from a fixed tray within the housing. The axis of rotation of the basket is greatly inclined with respect to an oil bath contained in tray, so that the food contained in the basket is cyclically and progressively immersed in the oil bath. The bath is heated by adequate heaters, and the apparatus is monitored by control devices.

The new deep fryer features high overall performance and low operating costs. This is due in particular to the small quantity of oil needed to form the oil bath, which is about one-half what is generally necessary, and to the reduced cooking time required as a result of the progressive and repeated elimination of food moisture.

6 Claims, 3 Drawing Sheets



CONFIDENTIAL P 000027

United States Patent [19]

Grandi

[11] Patent Number: 5,018,438

[45] Date of Patent: May 28, 1991

[54] **COOKING AND COOLING TRANSFER APPARATUS AT WILL FOR AUTOMATIC INTRODUCTION AND EVACUATION OF CONTAINERS WHICH CONTAIN FOODS OR PRODUCTS HAVING A VARIABLE DURATION OF COOKING AND COOLING**

[76] Inventor: René Grandi, "Loudon Ruy", 38500 Bourgoin Jallieu, France

[21] Appl. No.: 278,921

[22] PCT Filed: Feb. 29, 1988

[86] PCT No.: PCT/FR88/00113

§ 371 Date: Jan. 3, 1989

§ 102(e) Date: Jan. 3, 1989

[87] PCT Pub. No.: WO88/06408

PCT Pub. Date: Sep. 7, 1988

[30] Foreign Application Priority Data

Mar 2, 1987 [FR] France 87 02305

[51] Int. Cl.[5] A47J 37/12

[52] U.S. Cl. ..... 99/335; 62/159; 62/380; 99/327, 99/330, 99/357; 99/404; 99/407; 99/443 C; 99/477; 99/517; 134/134; 134/126; 198/346.1

[58] Field of Search ..... 99/334-336, 99/325, 330, 326, 327, 337, 341, 352, 355, 356, 357, 359-362, 367, 517, 403, 404, 407, 483, 443 R, 443 C, 468, 477; 198/346.1; 134/134, 83, 126; 62/382, 380, 378, 157, 159

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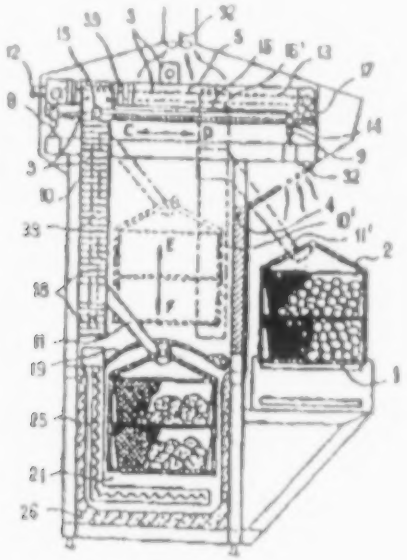
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1456639	11/1976	United Kingdom .	
2167031	5/1986	United Kingdom .	

Primary Examiner—Timothy F. Simone
Attorney, Agent, or Firm—Sandler, Greenblum & Bernstein

[57] ABSTRACT

An apparatus for preparing foods for predeterminable period of time. One embodiment of the apparatus is for cooking, another is for refrigeration. The apparatus includes either a cooking container or a refrigeration container, a conveyor for carrying food products to and from this container, and a robot assembly for removing food products from the conveyor, inserting them into the container, extracting them from the container after the predetermined cooking or refrigeration period, and returning them to the conveyor. The robot assembly is programmable to extract and return these food products after cooking or refrigeration for a predeterminable period of time.

27 Claims, 3 Drawing Sheets



CONFIDENTIAL P 000028

United States Patent [19]

Figliuzzi

[11] Patent Number: 4,951,538

[45] Date of Patent: Aug. 28, 1990

[54] BASKET LIFTING MECHANISM FOR COOKING POT

[76] Inventor: Vincent D. Figliuzzi, Rte. 1, Box 169-White Crow Rd., Fort Atkinson, Wis. 53538

[21] Appl. No.: 332,692

[22] Filed: Apr. 3, 1989

[51] Int. Cl.[5] A47J 37/12

[52] U.S. Cl. 99/336; 99/403, 99/410; 99/413

[58] Field of Search 99/327, 330, 331, 332, 99/333, 335, 336, 403, 404, 407, 410, 411, 413, 414

[56] References Cited

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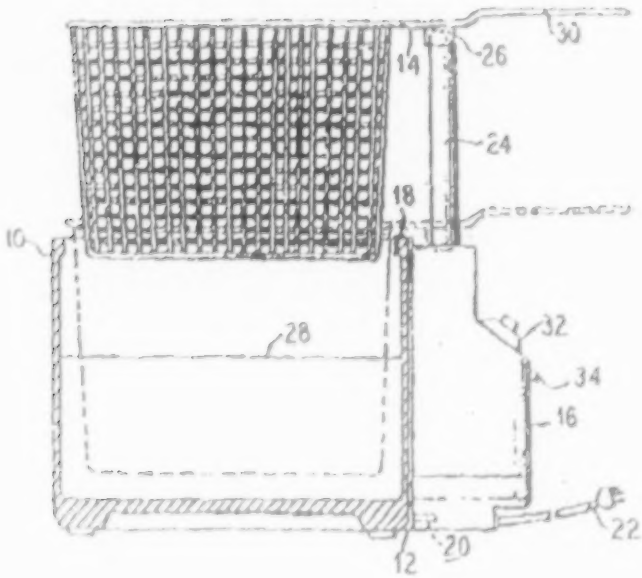
3121433	12/1981	Fed. Rep. of Germany	99/336
2531643	9/1983	France	99/403

Primary Examiner—Harvey C. Hornsby
Assistant Examiner—M. Split
Attorney, Agent, or Firm—The Hill Firm

[57] ABSTRACT

An apparatus for fastening on a cooking pot raises and lowers a basket into the pot under the control of a temperature sensor and timer. The lifting and lowering mechanism includes a hollow outer rod and threaded inner rod, the inner rod being driven by a motor. Various arrangements of controls, housing shapes, and a fastener to the cooking pot are provided, as is a stirring mechanism which plugs in place of the lifting mechanism.

18 Claims, 3 Drawing Sheets



CONFIDENTIAL P000029

United States Patent [19]

De Longhi

[11] Patent Number: 4,901,633

[45] Date of Patent: Feb. 20, 1990

[54] ROTATING OBLIQUE BASKET FRIER FOR CYCLIC IMMERSION COOKING

[75] Inventor: Giuseppe De Longhi, Treviso, Italy

[73] Assignee: De Longhi s.p.a., Treviso, Italy

[21] Appl. No.: 101,446

[22] Filed: Sep. 28, 1987

[51] Int. Cl.[4] A47J 37/12

[52] U.S. Cl. 99/409; 99/348; 99/410

[58] Field of Search 99/403-411, 99/425-427, 340, 348, 330, 339; 219/389, 214, 405, 411, 438, 239, 240; 366/216

[56] References Cited

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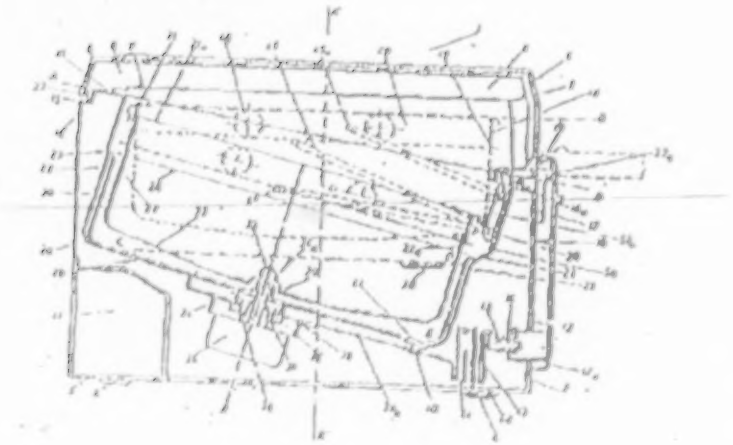
Primary Examiner—Timothy F. Simone
Attorney, Agent, or Firm—Rosen, Dainow & Jacobs

[57] ABSTRACT

A deep fryer apparatus particularly suitable to home use with a rotatable basket rotating within tray. Both the basket and the tray can be removed from a fixed tray within the housing. The axis of rotation of the basket is greatly inclined with respect to an oil bath contained in tray, so that the food contained in the basket is cyclically and progressively immersed in the oil bath. The bath is heated by adequate heaters, and the apparatus is monitored by control devices.

The new deep fryer features high overall performance and low operating costs. This is due in particular to the small quantity of oil needed to form the oil bath, which is about one-half what is generally necessary, and to the reduced cooking time required as a result of the progressive and repeated elimination of food moisture.

32 Claims, 3 Drawing Sheets



CONFIDENTIAL P 000030

United States Patent [19]

Rozak et al.

[11] Patent Number: 4,898,091

[45] Date of Patent: Feb. 6, 1990

[54] SELF VENTING FOOD FRYING APPARATUS

[76] Inventors: Alexander T. Rozak, #1, 722 - 5A St. N.W., Calgary, Alberta, Canada, T2N 1R4; Gary G. Calderwood, 3008 31 Ave. S.W., Calgary, Alberta, Canada, T2T 1T2

[21] Appl. No.: 306,970

[22] Filed: Feb. 6, 1989

[51] Int. Cl.[4] A47J 37/12

[52] U.S. Cl. 99/336; 99/337; 99/344; 99/401; 99/407

[58] Field of Search ..... 99/336, 333, 337, 344, 99/403, 409, 407, 410, 411, 412, 413, 331; 236/1 A, 1 B, 1 H; 55/316, 387, D10. 16; 126/387, 365, 391; 16/114 A, 114 R, 110 A; 169/63

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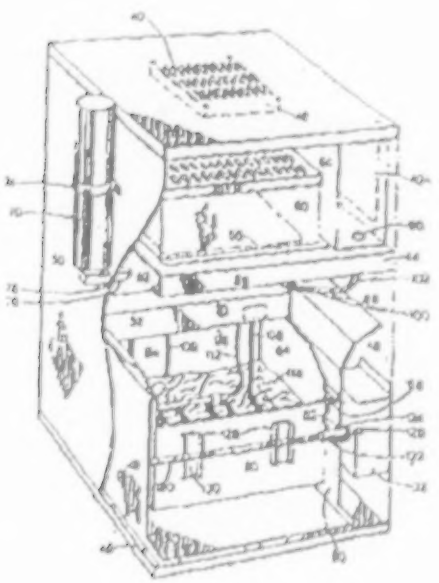
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Primary Examiner—Timothy F. Simone

[57] ABSTRACT

Self venting food frying apparatus is disclosed which provides apparatus which is capable of deep frying small portions of various food products without need for external venting. In one embodiment, the food frying apparatus includes an upright cabinet with a fan assembly mounted to exhaust air through the top of the cabinet while drawing air in through and from the lower portion of the cabinet. A removable sealing system and a removable one piece filter is in the air flow path to remove smoke, odors and particulate matter from the air before being exhausted back into the room. The removable filter includes flat lying layers of paper and activated charcoal configured as an integral unit. A container for holding a supply of cooking oil is located in the lower portion of the cabinet. Spill tray, oil container and heating element are configured as a fully removable unit. Mechanism is provided for automatically lowering a cooking basket, with food therein, into the cooking oil for a predetermined time and then raising the cooking basket from the oil. Control systems are configured as a removable integral unit. Self-diagnostic features are built into the control systems.

19 Claims, 7 Drawing Sheets



CONFIDENTIAL P 000031

United States Patent [19]
Lansing

[11] Patent Number: 4,852,471
[45] Date of Patent: Aug. 1, 1989

[54] SEMIAUTOMATIC FRYING MACHINE AND AIR FILTER APPARATUS THEREFOR

[75] Inventor: James P. Lansing, St. Cloud, Minn.

[73] Assignee: JVJ Enterprises, Inc., St. Cloud, Minn.

[21] Appl. No.: 119,765

[22] Filed: Nov. 10, 1987

[51] Int. Cl.⁴ A47J 37/12
[52] U.S. Cl. ..... 99/330; 99/113.1; 99/336; 99/409; 99/411; 126/299 R; 126/389; 219/432; 219/433; 219/436; 219/441
[58] Field of Search ..... 99/327, 330, 332, 333, 99/336, 337, 403, 409, 410, 411, 414, 416, 417, 426, 451, 450, 476; 98/115.1; 126/358, 299 R, 299 D; 219/432-437, 441

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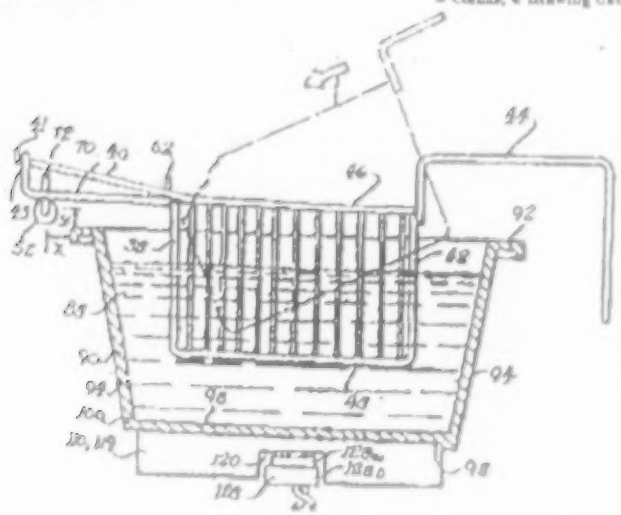
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Primary Examiner—Harvey C. Hornsby
Assistant Examiner—Stephen F. Gerrity
Attorney, Agent, or Firm—Fitch, Even, Tabin & Flannery

[57] ABSTRACT

Disclosed is a semiautomatic frying apparatus including a food carrying basket having a forward mounting lip and a rearward handle. The apparatus includes a basket-supporting shaft having a lip-engaging cradle for mounting the basket to the shaft. Disposed beneath the shaft, in a position to receive the basket upon rotation of the shaft, is a vessel holding heated cooking medium such as oil. A plate-like heater disposed beneath the vessel in heating contact therewith includes a bottom surface having a recess for mounting one or more temperature sensors, the recess opening into an airflow cavity. The frying apparatus is disposed within a cabinet and a fan and filter, also disposed within the cabinet, provides an air flow therethrough. A door connected by linkage to the basket-supporting shaft selectively blocks air flow through the cavity beneath the heating plate, and when opened to an unblocking position, purges heated air from the recess air, providing compensation for the temperature sensors therein. Also disclosed is an air filter consisting of a box-like container, the endwalls of which are slotted at their outer edges for flow through the container. Disclosed within the container is a central internal wall slotted at its center to allow air flow therethrough. Disposed between the central wall and either endwall is a pad of filter media. The air flow is constrained to move between the major surfaces of the filter media to prolong the residence time and improve contact between the air flow and the filter media.

5 Claims, 8 Drawing Sheets



CONFIDENTIAL P 000032

United States Patent [19]

Sakuma

[11] Patent Number: 4,732,081

[45] Date of Patent: Mar. 22, 1988

[54] DEVICE FOR PRODUCING FRIED FOOD

[75] Inventor: Ken Sakuma, Matsudo, Japan

[73] Assignee: Kenji Sakuma, Chiba, Japan

[21] Appl. No.: 894,237

[22] Filed: Aug. 6, 1986

[30] Foreign Application Priority Data

Aug. 19, 1985 [JP] Japan 60-180583

[51] Int. Cl.[4] A47J 37/12

[52] U.S. Cl. 99/407; 426/438

[58] Field of Search 99/407, 408, 330, 336, 99/342, 331; 426/438; 126/374, 351

[56] References Cited

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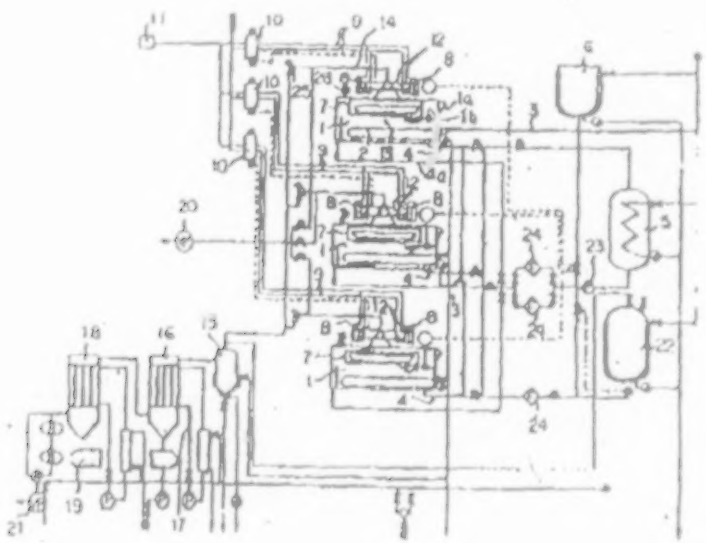
Primary Examiner—Louis K. Rimrodt
Assistant Examiner—Judith L. Olds
Attorney, Agent, or Firm—Armstrong, Nikaido, Marmelstein & Kubovcik

[57] ABSTRACT

A process for producing a fried food, which comprises placing a starting material suitably applied with a necessary pretreatment into a fryer filled to an intermediate level with heated oil, moving the material vertically to repeat the operation of dipping the material into the oil and withdrawing the material above the oil surface for several minutes, then allowing the material to rest in the oil for a while and finally draining off the oil by vibrating the material with small amplitudes above the oil.

This process can be carried out by using a device comprising a fryer vessel equipped with a sealing lid at the upper portion on one side, a pipe for feeding heated oil which feeds the heated oil from an oil heater into said fryer vessel, a return pipe which returns used oil from said fryer vessel through an oil filter to the oil heater, a level gauge for monitoring the oil level of the heated oil filled to an intermediate level in the fryer vessel, an air cylinder which drives a waggle frame housed within the fryer vessel vertically to dip the frame into the oil or withdraw the frame above the oil surface and a starting material case housed within the waggle frame so as to be freely dischargeable by opening the above sealing lid.

5 Claims, 5 Drawing Figures



CONFIDENTIAL P 000034

United States Patent [19]

Sowell

[11] Patent Number: 4,719,850

[45] Date of Patent: Jan. 19, 1988

[54] AUTOMATIC COOKING APPARATUS

[76] Inventor: Jerry G. Sowell, Rt. 1, Oakfield, Texas. 75162

[21] Appl. No.: 940,913

[22] Filed: Dec. 12, 1986

[51] Int. Cl.[4] A47J 37/12

[52] U.S. Cl. 99/404; 99/407

[58] Field of Search 99/403, 404, 407, 408, 99/410

[56] References Cited

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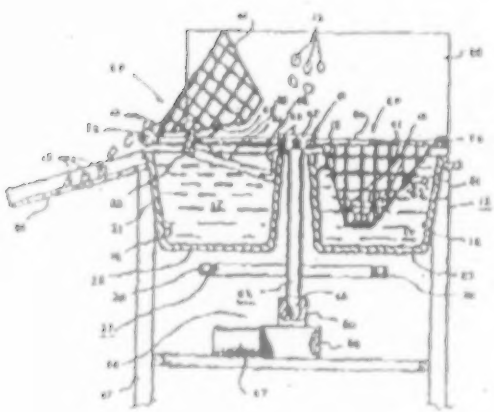
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Primary Examiner—Henry S. Jaudon
Attorney, Agent, or Firm—Walker & McKenzie

[57] ABSTRACT

An apparatus for automatically deep-fat frying food products. A vat containing cooking medium is associated with a heater for heating the cooking medium. A plurality of baskets for containing food products are pivotally mounted on a spider-like hub member for movement between cooking and discharge positions. A drive mechanism is coupled to the hub member for rotating the hub member and the baskets. A cam mechanism is associated with the baskets and the vat for moving the baskets between the cooking and discharge positions as the baskets are rotated about the vat.

8 Claims, 11 Drawing Figures



CONFIDENTIAL P 000035

United States Patent [19]

Bezon

[11] Patent Number: 4,685,386

[45] Date of Patent: Aug. 11, 1987

[54] AUTOMATIC APPARATUS FOR THE CONTINUOUS COOKING OF INDIVIDUAL FOOD PORTIONS BY BOILING OR FRYING

[76] Inventor: Jacques Bezon, Campagne Chanmvert, 63380 Meounes, France

[21] Appl. No.: 709,346

[22] Filed: Mar. 6, 1985

[30] Foreign Application Priority Data

Mar. 13, 1984 [FR] France 84 03974
Feb. 14, 1985 [FR] France 85 02388

[51] Int. Cl.[4] A47J 37/12

[52] U.S. Cl. ..... 99/404; 99/407; 99/409; 99/443 C

[58] Field of Search ..... 99/335, 404, 407, 409, 99/427, 443 C; 426/523

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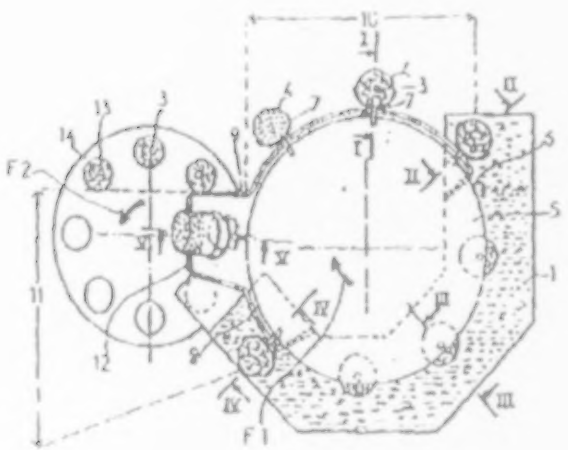
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Primary Examiner—Timothy F. Simone
Attorney, Agent, or Firm—Young & Thompson

[57] ABSTRACT

Automatic apparatus for the continuous cooking of individual food portions. The apparatus contains suspended baskets into which the food is placed, and the baskets are guided on a horizontal wheel. The wheel is rotated such that the baskets are moved through a container of boiling liquid to cook the food. After the baskets are withdrawn, the food is emptied onto plates on another rotating wheel contained at a lower level than the first horizontal wheel. Various ways of emptying the containers are taught including turning the containers over, and constructing the containers with bottoms that slide so as to allow the food to fall onto the plate. In a further embodiment, a lower guide ramp is used to secure the bottom of the containers. The ramp is discontinuous at the place where the food is to be emptied onto the plates.

8 Claims, 20 Drawing Figures



CONFIDENTIAL P 000036

United States Patent [19]

Maeda et al.

[11] Patent Number: 4,593,170

[45] Date of Patent: Jun. 3, 1986

[54] FOOD FRYING APPARATUS

[75] Inventors: Masahiko Maeda; Masaharu Takashima; Masahiro Takeuchi, all of Shiga, Japan

[73] Assignee: Sanyo Electric Co., Ltd., Japan

[21] Appl. No.: 463,911

[22] Filed: Feb. 3, 1983

[30] Foreign Application Priority Data

Feb. 9, 1982 [JP] Japan 57-20556

[51] Int. Cl.⁴ H05B 6/64

[52] U.S. Cl. ..... 219/10.55 E; 219/10.55 B; 99/336; 99/403

[58] Field of Search ..... 219/10.55 E, 10.55 M, 219/10.55 R, 10.55 B; 99/336, 403, 410, 411, 418

[56] References Cited

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Primary Examiner—Clarence L. Albritton

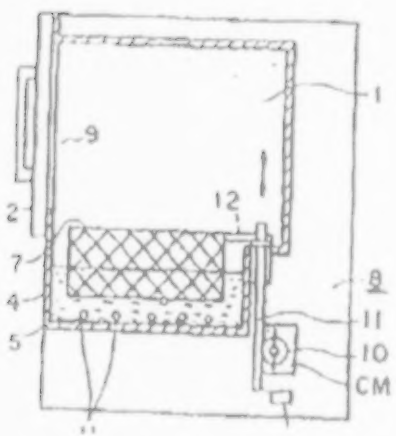
Assistant Examiner—M. M. Lateef

Attorney, Agent, or Firm—Darby & Darby

[57] ABSTRACT

A food frying apparatus comprises a heating chamber (1), a heater (H), a magnetron, a food table (7), a lifting apparatus (E) and a control apparatus. A cooking oil is contained in a lower portion of the heating chamber (1). The cooking oil is heated to higher temperature by the heater (H). After placing food on the table (7), the table (7) is lowered by the lifting apparatus (E) so that the food is dipped into the cooling oil, and frying of the food is started. If and when the table (7) is lowered, irradiation of a microwave from the magnetron is started and the food is internally heated. The control apparatus controls the temperature of said cooking oil, a time period for dipping the food into the cooking oil and a time period for supplying the microwave. Therefore, in accordance with the present invention, the food can be dipped into the cooking oil with high temperature automatically and for an arbitrary time period and in addition, irradiation of the microwave can be made for an arbitrary time period.

9 Claims, 21 Drawing Figures



CONFIDENTIAL P000037

United States Patent [19]

Hawkins

[11] Patent Number: 4,586,429

[45] Date of Patent: May 6, 1986

[54] FOOD DISPENSER

[75] Inventor: John Hawkins, Brookvale, Australia

[73] Assignee: Cubi Cubes Pty. Limited, Australia

[21] Appl. No.: 648,156

[22] PCT Filed: Dec. 23, 1983

[86] PCT No.: PCT/AU83/00193

§ 371 Date: Aug. 21, 1984

§ 102(e) Date: Aug. 21, 1984

[87] PCT Pub. No.: WO84/02457

PCT Pub. Date: Jul. 5, 1984

[30] Foreign Application Priority Data

Dec. 24, 1982 [AU] Australia PF7415

[51] Int. Cl.[4] A47J 31/12

[52] U.S. Cl. 99/407; 222/368

[58] Field of Search 99/403, 407, 356, 336; 222/354, 358, 368; 426/523

[56] References Cited

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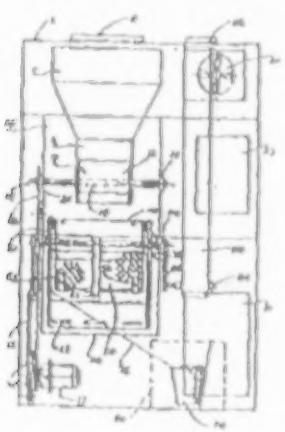
Primary Examiner—Billy J. Wilhite

Attorney, Agent, or Firm—Silverman, Cass, Singer & Winburn, Ltd.

[57] ABSTRACT

Automatic food dispensing apparatus comprises a hopper (4), a rotatable cylinder (12) having a recess for receiving and dispensing a predetermined amount of food to a food container (40) in the form of a perforated metal rectangular container, the container being movable between a rest position, a first portion in which the container is disposed in a food cooker (26) for cooking the food dispensed in the container, and a second position in which the container (4) is held above a food dispenser (76) so that the food in the container is dispensed to a cup (76). The container (40) has a pivotable base (44) and spring clips (50) along one side which hold the base (44) in place. In the first position in the cooker (26), a spring metal strip holds the base in place and defines the lower limit of movement of the base. In the second position in the cooker, the clips (5) engage a metal bar (92) for releasing the clips and the base (44).

11 Claims, 6 Drawing Figures



CONFIDENTIAL P 000038

United States Patent [19]

Davis

[11] Patent Number: 4,549,527

[45] Date of Patent: Oct. 29, 1985

[54] SOLID STATE TEMPERATURE CONTROLLER

[75] Inventor: John Davis, Shreveport, La.

[73] Assignee: The Frymaster Corporation, Shreveport, La.

[21] Appl. No.: 513,198

[22] Filed: Jul. 8, 1983

[51] Int. Cl.[4] A47J 37/00

[52] U.S. Cl. 126/374; 219/442; 219/419; 219/510

[58] Field of Search ..... 126/374, 352; 431/1; 236/94, 20 A; 219/419, 437, 441, 442, 475, 510; 99/359, 403

[56] References Cited

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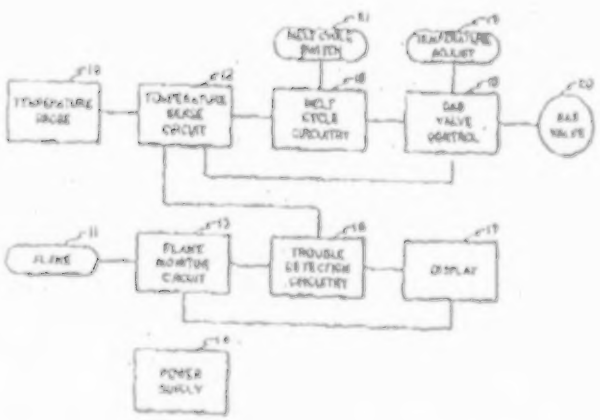
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Primary Examiner—Randall L. Green
Attorney, Agent, or Firm—Hubbard, Thurman, Turner & Tucker

[57] ABSTRACT

A temperature controller for a deep fat fryer including a temperature sensing circuit that determines the temperature of cooking oil in the deep fat fryer and which is connected to a temperature control circuit that controls the deep fat fryer heat source in providing heat to the cooking oil in response to a set temperature from an external input device. The control circuit also includes an anticipator circuit that variably modulates the heating source before the cooking oil temperature approaches the set temperature. The temperature control circuit further includes a resistor divider network that provides selected voltages representing reference temperatures and which are input to several operational amplifiers for controlling the heat source.

13 Claim, 6 Drawing Figures



CONFIDENTIAL P 000039

United States Patent [19]

Anetsberger et al.

[11] Patent Number: 4,508,026

[45] Date of Patent: Apr. 2, 1985

[54] BASKET MOVING MECHANISM FOR DEEP FAT FRYER

[75] Inventors: Richard J. Anetsberger; John A. Anetsberger, both of North Brook, Ill.

[73] Assignee: Anetsberger Brothers, Inc., Northbrook, Ill.

[21] Appl. No.: 516,633

[22] Filed: Jul. 25, 1983

[51] Int. Cl.³ A47J 37/12

[52] U.S. Cl. 99/407; 99/336

[58] Field of Search 99/336, 407, 403, 410, 99/411, 417

[56] References Cited

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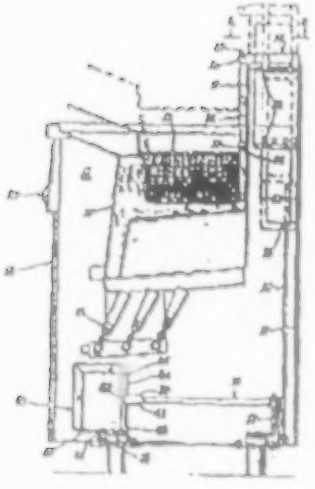
Primary Examiner—Billy J. Wilhite

Attorney, Agent, or Firm—McCaleb, Lucas & Brugman

[57] ABSTRACT

Deep fat fryer having plurality of food-supporting baskets, individual motor and switch controls for raising and lowering baskets mounted in forward lower portion of fryer casing to facilitate servicing thereof.

9 Claims, 9 Drawing Figures



CONFIDENTIAL P 000040

United States Patent [19]

Moore et al.

[11] 4,287,818

[45] Sep. 8, 1981

[54] AUTOMATIC FRYER FOR BREADED PRODUCTS

[75] Inventors: Lewis F. Moore; George M. Price, both of Shreveport, La.

[73] Assignee: The Frymaster Corporation, Shreveport, La.

[21] Appl. No.: 953,910

[22] Filed: Oct. 23, 1978

[51] Int. Cl.³ A47J 37/12

[52] U.S. Cl. 99/355; 99/336; 99/407; 99/411; 99/416

[58] Field of Search ..... 99/336, 407, 410, 411, 99/416, 417, 443 R, 448, 355, 408

[56] References Cited

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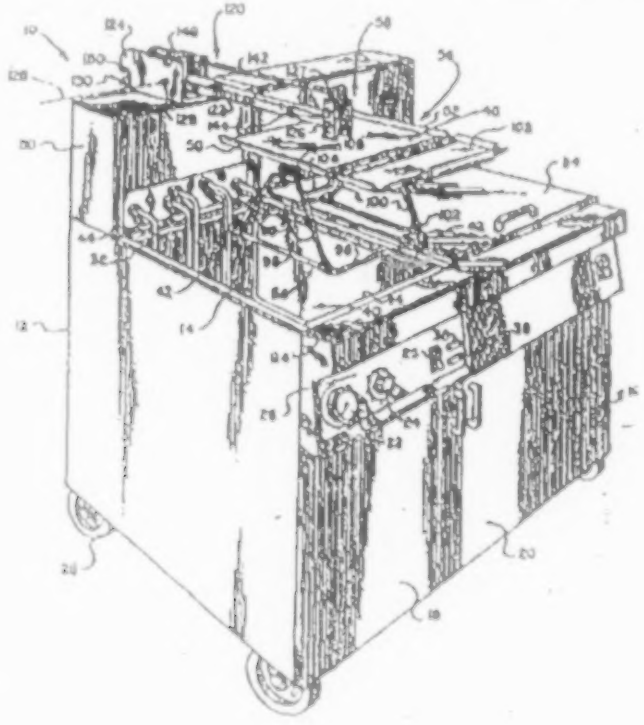
Primary Examiner—Billy J. Wilhite

Attorney, Agent, or Firm—Hubbard, Thurman, Turner, Tucker & Glaser

[57] ABSTRACT

Frying apparatus including a fry pot and rack handling means for inserting a vertical stack of frying racks into and withdrawing the frying racks from the fry pot is disclosed. The rack handling means includes a frying rack assembly and a rack support assembly movably suspended with respect to the open mouth of the fry pot. The rack support assembly includes portions defining an open channel detachably engaging the frying rack assembly and means for guiding the frying rack assembly for movement from an elevated position above the open mouth of the fry pot wherein the frying rack assembly may be inserted into the channel prior to a cooking cycle or withdrawn from the channel after completion of the cooking cycle, to an immersed position inside of the fry pot wherein food portions previously loaded onto the frying rack assembly may be fried during a cooking cycle. In a preferred embodiment, the frying rack assembly comprises an open basket frame and a plurality of frying racks stacked in vertical relation within the basket frame, and the rack support assembly comprises a pair of support arms pivotally coupled to the frying rack assembly defining a pantograph structure which stabilizes the movement of the frying rack assembly as it is inserted into or withdrawn from the fry pot.

13 Claims, 7 Drawing Figures



CONFIDENTIAL P 000041

United States Patent [19]
Wohlfart

[11] 4,250,803
[45] Feb. 17, 1981

[54] DEEP FRYER

[75] Inventor: Kurt Wohlfart, Offenbach, Fed. Rep. of Germany

[73] Assignee: Rowenta-Werke GmbH, Offenbach am Main, Fed. Rep. of Germany

[21] Appl. No.: 91,583

[22] Filed: Jan. 25, 1979

[30] Foreign Application Priority Data

Jul. 29, 1978 [DE] Fed. Rep. of Germany 2833527

[51] Int. Cl.³ A47J 37/12
[52] U.S. Cl. 99/409; 99/427
[58] Field of Search ..... 99/403, 404, 407, 410, 99/411, 425, 426-427, 409, 421 P; D7/94

[56] References Cited

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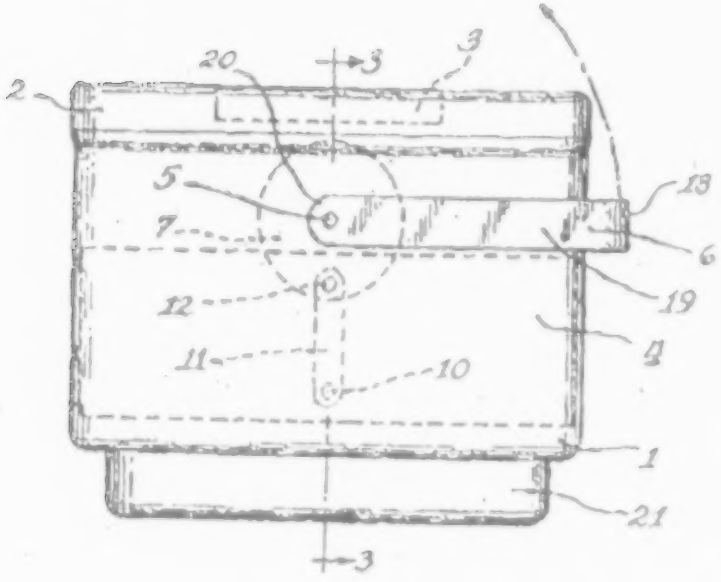
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2368657	10/1976	France .
318153	2/1957	Switzerland .

Primary Examiner—Stanley N. Gilreath
Assistant Examiner—Arthur O. Henderson
Attorney, Agent, or Firm—George R. Clark; Neil M. Rose; Allen J. Hoover

[57] ABSTRACT

In a deep fryer of a compact, portable type comprising a vessel, a handle, which is mounted to the vessel, a basket, which is adapted to be lowered and raised within the basket, a cover, which fits removably onto the vessel so as to cover the vessel, and means for lowering and raising the basket within the vessel while the vessel remains covered by the cover, wherein the handle has opposite ends mounted pivotally to opposite sides of the vessel, an improvement is disclosed wherein the basket lowering and raising means comprises a pair of pins, each of which is attached to one of the ends of the handle so as to rotate as the handle is pivoted, and which are linked to the basket so as to lower and raise the basket within the vessel as the handle is pivoted oppositely.

8 Claims, 3 Drawing Figures



CONFIDENTIAL P000042

United States Patent [19]

Hengstenberg

[11] 4,238,997

[45] Dec. 16, 1980

[54] APPARATUS FOR BLANCHING SAUERKRAUT

[75] Inventor: Eckhart Hengstenberg, Mettingerstrasse 109, D-7300 Esslingen, Fed. Rep. of Germany

[21] Appl. No.: 84,261

[22] Filed: Oct. 12, 1979

[30] Foreign Application Priority Data

Oct. 13, 1978 [DE] Fed. Rep. of Germany 2844630

[51] Int. Cl.³ A23B 7/06

[52] U.S. Cl. 99/483; 99/348, 416/615

[58] Field of Search ..... 99/516, 483, 485, 443 R, 99/348, 323.12, 409, 403, 404, 366/149, 147, 149, 148, 235, 68/27, 58, 426/615

[56] References Cited

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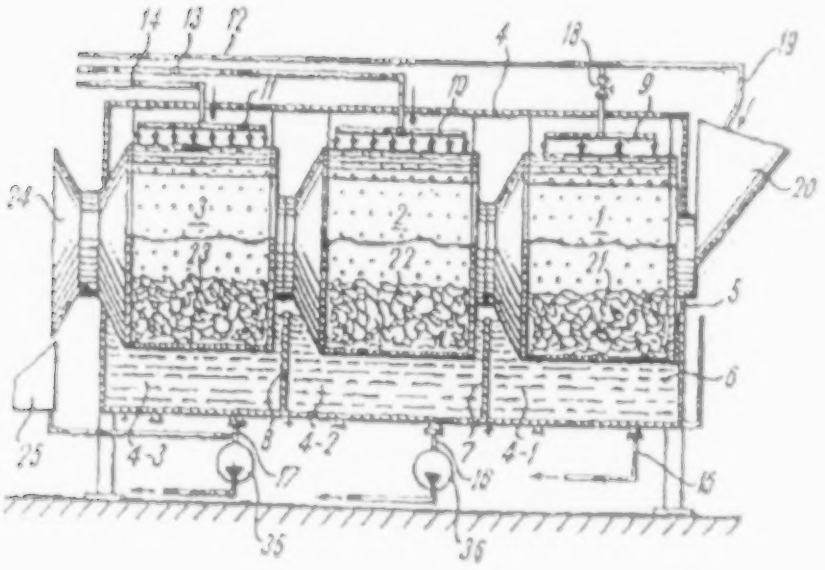
Primary Examiner—Robert W. Jenkins

Attorney, Agent, or Firm—Edwin E. Greigg

[57] ABSTRACT

A series of rotatably arranged perforated sheet metal drums are proposed through which sauerkraut may be traversed in either a water or heated brine solution. A control system for heated brine is arranged so that the brine emitted from a heat exchanger passes through partitioned chambers in which each drum is arranged to rotate, the last of this series of drums adapted to receive the hottest solution and the brine thence traveling to the next adjacent drum in succession.

5 Claims, 2 Drawing Figures



CONFIDENTIAL P000043

華利泰有限公司
(香成國際企業附屬公司)
PENTALPHA ENTERPRISES LIMITED
Wholly owned by Wing Shing International Ltd. (BVI)

100/15

INVOICE

SUNBEAM PRODUCTS, INC.
1615 S. CONGRESS AVE., SUITE 200,
DELRAY BEACH, FL 33445

Ref. 64445/97

BY S/P
"EXPRESS
HEAVILY V.015E
ON/ABT 17AUG97
FROM HONG KONG
TO LOS ANGELES
19 AUG 97

Shipment

Date

Quantity	Model No.	DESCRIPTION	Unit Price	Amount
				FOB HONG KONG US$
1,860 PCS	3241-35	DEEP FRYER W/TIMER C/T NO.1-3 PURCHASE ORDER NO 97020179 SHIPPING MARKS:	US$28.15	108,096.00

P.O.#	QUANTITY	MODEL NO
19659	2	3241-35

DESCRIPTION
SUNBEAM
FAT EIGHTH
DEEP FRYER

SUNBEAM OSTER HOUSEHOLD PRODUCTS
95th BUSINESS INDUSTRIAL DRIVE
MATTESBURG, MS 39401

TO:

CUST MODEL NO
STEP#8
#5626200060

MADE IN CHINA (PEOPLE'S REPUBLIC)
CASE MADE #220

H

TOTAL: U.S. DOLLARS ONE HUNDRED EIGHT THOUSAND NINETY SIX ONLY ***

for and on behalf of
PENTALPHA ENTERPRISES LIMITED

Authorized Signature

CONFIDENTIAL

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DEFENDANT'S EXHIBIT 2

SUN00902

US005144516A

United States Patent [19]

Sham

[11] Patent Number: 5,144,516

[45] Date of Patent: Sep. 1, 1992

[54] LEAKAGE CURRENT CIRCUIT INTERRUPTER DEVICE

[75] Inventor: John C. K. Sham, Hong Kong, Hong Kong

[73] Assignee: Wing Shing Products Company, Ltd., Aberdeen, Hong Kong

[21] Appl. No.: 650,856

[22] Filed: Feb. 4, 1991

[51] Int. Cl.[5] H02H 3/16

[52] U.S. Cl. 361/49; 361/50; 361/115; 335/167

[58] Field of Search 361/49, 50, 115, 335/167, 168, 169

[56] References Cited

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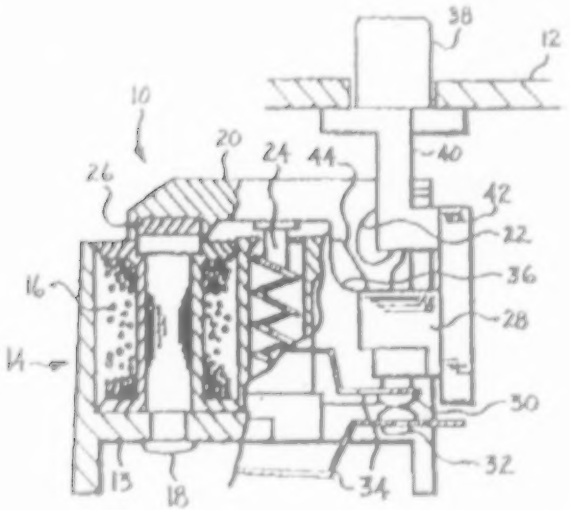
2519713	1/1976	Fed. Rep. of Germany	361/115
0135787	3/1956	Sweden	361/115
0648144	3/1947	United Kingdom	361/115

Primary Examiner—Steven L. Stephan
Assistant Examiner—Thomas M. Dougherty
Attorney, Agent, or Firm—Dilworth & Barrese

[57] ABSTRACT

A leakage current interrupter device for use with appliances. The device of the present invention includes a switching device having an electromagnet which is energized by a sensing circuit upon the detection of leakage current or a ground fault condition. The magnetic field generated by the electromagnet moves a lever arm to instantaneously interrupt the flow of current through the circuit to disconnect the appliance from the power supply.

25 Claims, 3 Drawing Sheets





A-2841

US00D345671S

United States Patent [19]

Sham et al.

[11] Patent Number: Des. 345,671

[45] Date of Patent: ** Apr. 5, 1994

[54] FOOD SLICER

[76] Inventors: John C. K. Sham, Flat 1308 Block C, 19 Broadwood Rd., Hong Kong; Yu S. Kwong, Flat H, 13/O, Hoi Ming Mansions, Riviera Garden, Tsuen Wan, N.T. Hong Kong, both of Hong Kong

[**] Term: 14 Years

[21] Appl. No.: 714,046

[22] Filed: Jan. 12, 1991

[52] U.S. Cl. D7/384; D7/383; D7/384

[58] Field of Search D7/376, 379, 383, 384, D7/386, 412, 241/37.5, 92, 93, 101.1, 199.12, 282.1, 282.2, 99/510

[56] References Cited

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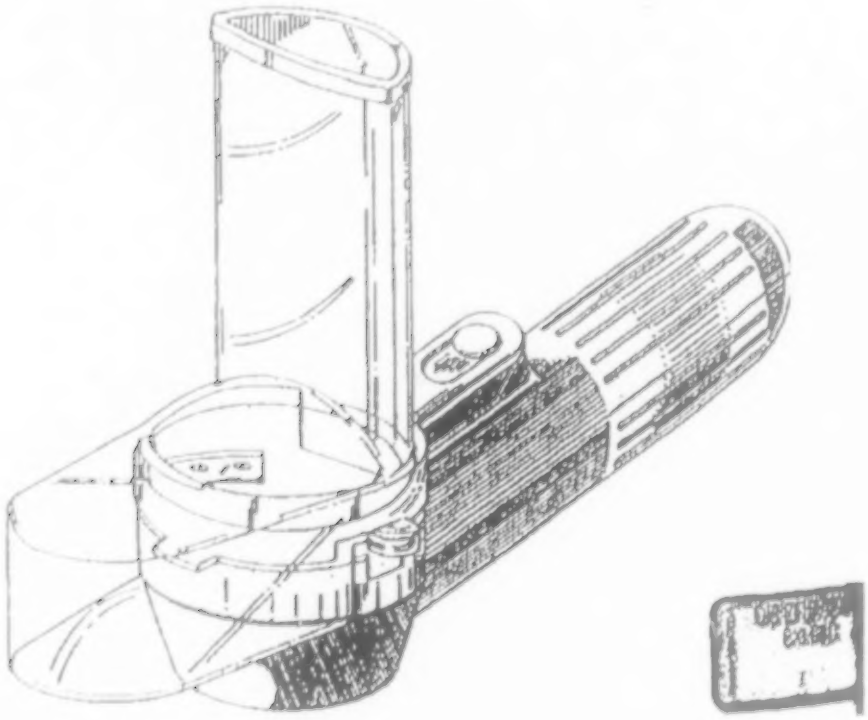
Primary Examiner—Nelson C. Moltje
Assistant Examiner—Carrie D. Veyna
Attorney, Agent, or Firm—Dilworth & Barrese

[57] CLAIM

The ornamental design for a food slicer, as shown and described.

DESCRIPTION

FIG. 1 illustrates a top, front and side perspective view of our new design for a food slicer;
FIG. 2 illustrates a top plan view thereof;
FIG. 3 illustrates a left side elevational view thereof;
FIG. 4 illustrates a front elevational view thereof;
FIG. 5 illustrates a rear elevational view thereof; and,
FIG. 6 illustrates a bottom plan view thereof.



USDD346090S

United States Patent [19]

Sham et al.

[11] Patent Number: Des. 346,090

[45] Date of Patent: ** Apr. 19, 1994

[54] FOOD CHOPPER

[76] Inventors: John C. K. Sham, Rm. 1508, Block C, 19 Broadwood Rd., Hong Kong; Yu S. Kwong, Flat H, 13/O, Hid Ming Mansions, Riviera Garden, Tsuen Wan, N. T., both of Hong Kong

[**] Term: 14 Years

[21] Appl. No.: 714,047

[22] Filed: Jun. 12, 1991

[52] U.S. Cl. D7/381; D7/383; D7/384

[58] Field of Search D7/376, 379, 383, 384, D7/386, 412, 381, 341/37.5, 101.1, 199.12, 282.1, 282.2, 92, 93; 99/510

[56] References Cited

U.S. PATENT DOCUMENTS

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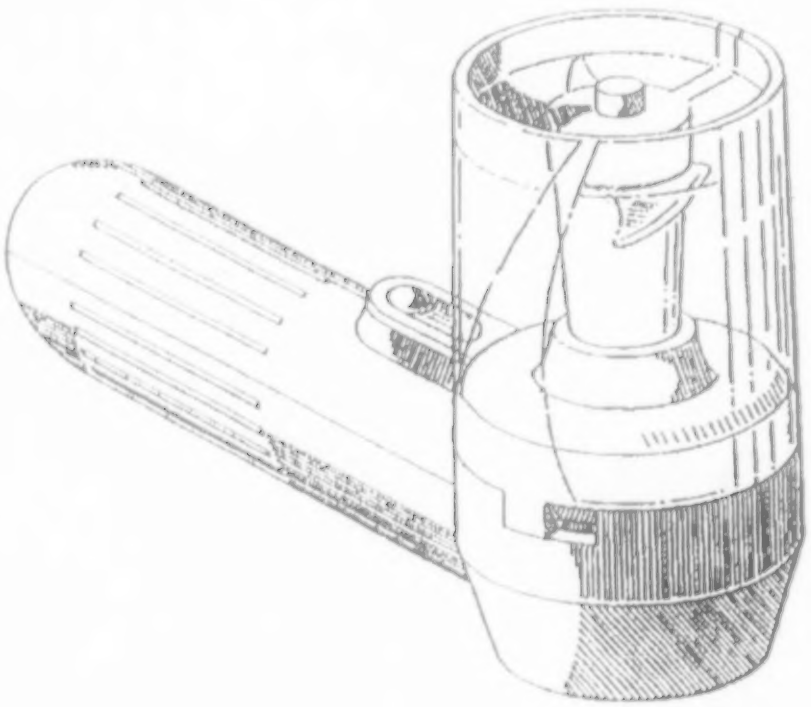
Primary Examiner—Alan P. Douglas
Assistant Examiner—Carol D. Veynar
Attorney, Agent, or Firm—Dilworth & Barrese

[57] CLAIM

The ornamental design for a food chopper, as shown and described.

DESCRIPTION

FIG. 1 illustrates a top, front and side perspective view of our new design for a food chopper;
FIG. 2 illustrates a top plan view thereof;
FIG. 3 illustrates a right side elevational view thereof;
FIG. 4 illustrates a front elevational view thereof;
FIG. 5 illustrates a rear elevational view thereof; and,
FIG. 6 illustrates a bottom plan view thereof.
The broken line showing a processor blade in FIGS. 1-5 is environmental only and forms no part of the claimed design.





A 2856

US00D348585S

United States Patent [19]

Sham

[11] Patent Number: Des. 348,585

[45] Date of Patent: ** Jul. 12, 1994

[54] COFFEE MAKER

[76] Inventor: John C. K. Sham, Room 1508, Block C, 19 Broadwood Road, Hong Kong, Hong Kong

[**] Term: 14 Years

[21] Appl. No.: 912,891

[22] Filed: Jul. 13, 1992

[52] U.S. Cl. D7/309; D7/310, D7/311

[58] Field of Search D7/300, 305, 306, 308, D7/309, 310, 311, 313, 307, 97/279, D20/4, 5

[56] References Cited

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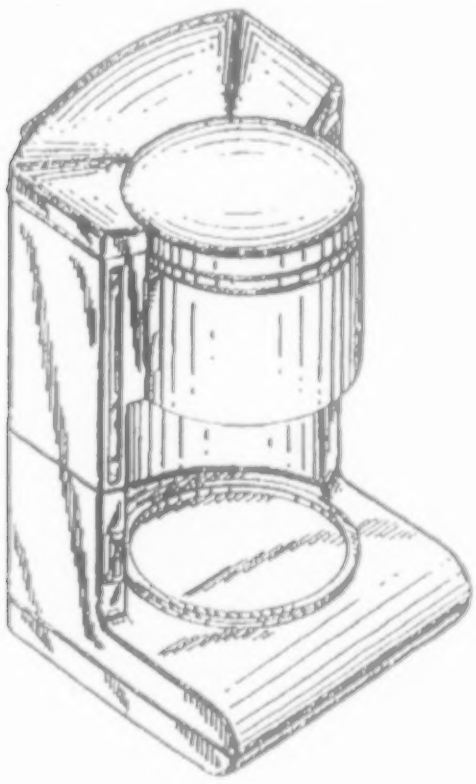
Primary Examiner—Alan P. Douglas
Assistant Examiner—M. N. Pandozzi
Attorney, Agent, or Firm—Ellsworth & Barnes

[57] CLAIM

The ornamental design for a coffee maker, as shown and described.

DESCRIPTION

FIG. 1 illustrates a top, front and side perspective view of my new design for coffee maker,
FIG. 2 illustrates a front view thereof,
FIG. 3 illustrates a right side view thereof,
FIG. 4 illustrates a top plan view thereof,
FIG. 5 illustrates a left side view thereof,
FIG. 6 illustrates a rear view thereof, and,
FIG. 7 illustrates a bottom plan view thereof.



DESIGNER'S
K

A-2862

US005341541A

United States Patent [19]

Sham

[11] Patent Number: 5,341,541

[45] Date of Patent: Aug. 30, 1994

[54] PORTABLE STEAM VACUUM CLEANER

[76] Inventor: John C. K. Sham, Room 1508, Block C, 19 Broadwood Road, Hong Kong

[21] Appl. No.: 943,308

[22] Filed: Sep. 9, 1992

[51] Int. Cl.[5] A47L 5/26

[52] U.S. Cl. 15/320; 15/344, 15/353; 68/222

[58] Field of Search 15/320, 344; 68/222

[56] References Cited

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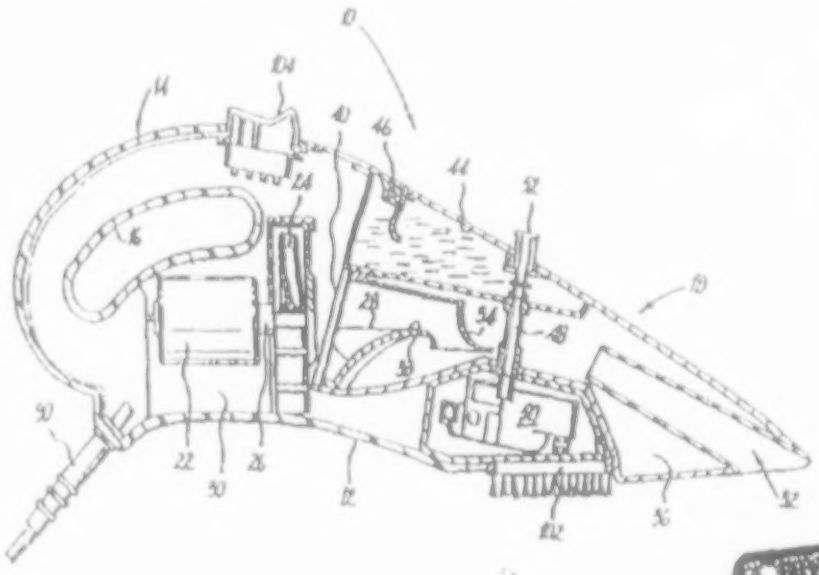
0200807	11/1986	European Pat. Off. .
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Primary Examiner—Chris K. Moore
Attorney, Agent, or Firm—Dilworth & Barrese

[57] ABSTRACT

A portable hand-held steam vacuum cleaner is provided which includes a housing having a handle portion and a nozzle portion. A reservoir is defined in the housing for retaining cleaning solution or water, and a heating unit is associated with the reservoir for heating the liquid so as to generate steam for delivery to a surface to be cleaned. A motor driven fan assembly is disposed within the housing in communication with the nozzle portion for drawing excess liquid and debris into the nozzle portion. The nozzle portion defines structure for separating and containing the liquid which is drawn into the vacuum cleaner.

31 Claims, 10 Drawing Sheets





US005386612A

United States Patent [19]

Sham

[11] Patent Number: 5,386,612

[45] Date of Patent: Feb. 7, 1995

[54] PORTABLE STEAM VACUUM CLEANER

[76] Inventor: John C. K. Sham, Room 1508, Block C, 19 Broadwood Road, Hong Kong, Hong Kong

[21] Appl. No.: 82,147

[22] Filed: Apr. 23, 1993

Related U.S. Application Data

[63] Continuation-in-part of Ser. No. 963,308, Sep. 9, 1992.

[51] Int. Cl.[6] A47L 7/00

[52] U.S. Cl. 15/320; 15/344; 15/367; 15/401

[58] Field of Search 15/321, 322, 401, 344, 15/320, 367

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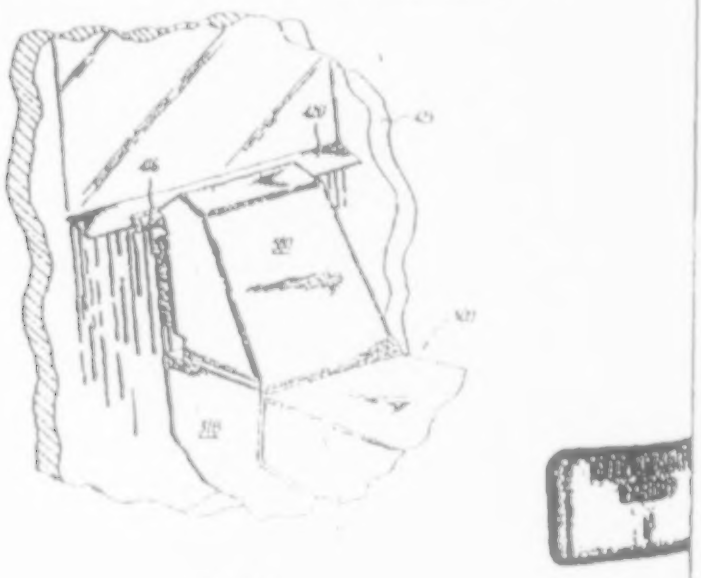
0200837	11/1986	European Pat. Off. .	
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Primary Examiner—Chris K. Moore
Attorney, Agent, or Firm—Dilworth & Barrese

[57] ABSTRACT

A vacuum cleaning apparatus is provided which includes a housing having a handle portion and a nozzle portion. A reservoir is defined in the housing for retaining cleaning solution or water, and a heating unit is associated with the reservoir for heating the liquid so as to generate steam for delivery to a flat surface such as a window to be cleaned. A squeegee assembly is mounted to the housing adjacent the nozzle portion for wiping the window after liquid has been deposited thereon. A motor driven fan assembly is disposed within the housing in communication with the nozzle portion for drawing excess liquid and debris into the nozzle portion. The nozzle portion defines structure for separating and containing the liquid which is drawn into the apparatus.

14 Claims, 11 Drawing Sheets



A-2882

US005400701A

United States Patent [19]

Sham

[11] Patent Number: 5,400,701

[45] Date of Patent: Mar. 28, 1995

[54] STEAM COOKING APPLIANCE

[76] Inventor: John C. K. Sham, Room 1908, Block C, 19 Broadhead Road, Hong Kong, Hong Kong

[21] Appl. No.: 150,844

[22] Filed: Jan. 12, 1994

[51] Int. Cl.[6] A47J 37/04

[52] U.S. Cl. 99/418; 99/446, 99/450; 126/369; 219/401

[58] Field of Search 99/446, 410, 413, 416, 99/417, 411, 415, 412, 414, 450; 126/360, 369.2; 219/401, 415

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Primary Examiner—David A. Scherbel
Assistant Examiner—Reginald L. Alexander
Attorney, Agent, or Firm—Dilworth & Barrese

[57] ABSTRACT

A steam cooking appliance which enables food to be steam cooked while preventing condensate residue to be re-boiled again. The steam cooking appliance of the present invention provides a water containment basin defining a water reservoir and a condensate basin wherein the water reservoir is isolated from the condensate basin. The steam cooking appliance operates to enable the water reservoir to remain free from condensate residue even after boiling dry.

20 Claims, 6 Drawing Sheets

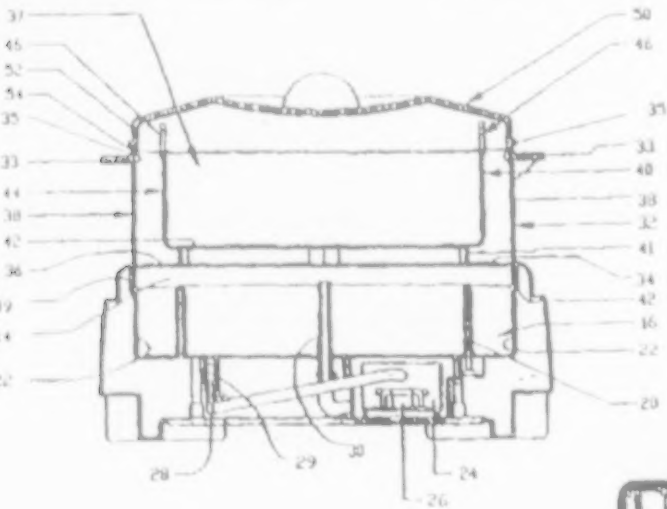


EXHIBIT
N

US00D362944S

United States Patent [19]

Sham et al.

[11] Patent Number: Des. 362,944

[45] Date of Patent: ** Oct. 3, 1995

[54] STEAM AND DRY IRON

[75] Inventors: John C. K. Sham, Hong Kong; Yu S. Kwong, Tuen Wan, both of Hong Kong

[73] Assignee: Wing Shing Products Co., Ltd., Aberdeen, Hong Kong

[**] Term: 14 Years

[21] Appl. No.: 770,951

[22] Filed: Oct. 1, 1991

[52] U.S. Cl. D32/70

[58] Field of Search D32/68-72, 38/74-75, 38/77.1, 77.2, 77.5, 77.7, 77.8, 82, 85, 88, 90, 93; 219/245, 248, 250, 254-259

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Primary Examiner—James M. Gandy
Assistant Examiner—Lawrence D. Tabas

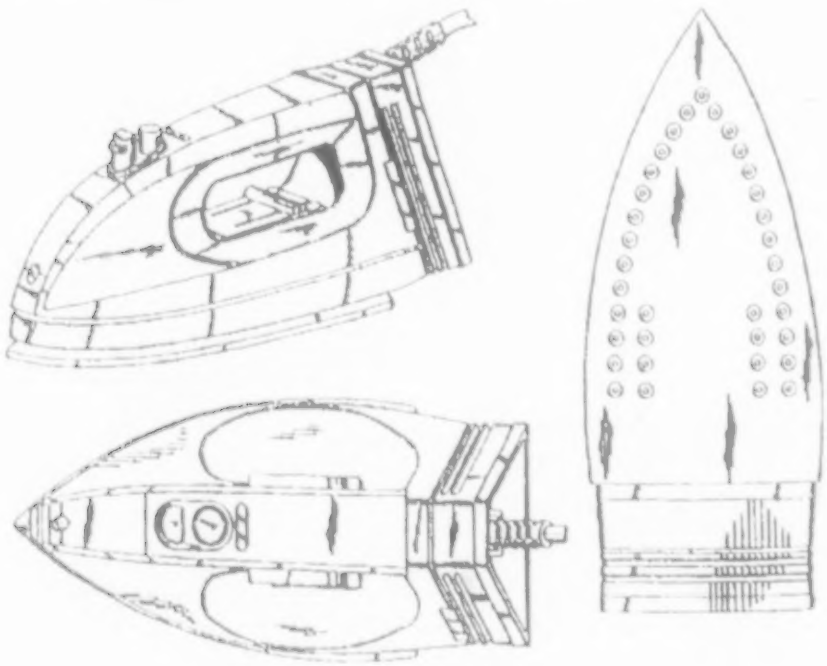
[57] CLAIM

The ornamental design for a steam and dry iron, as shown and described.

DESCRIPTION

FIG. 1 illustrates a top, front and side perspective view of our new design for a steam and dry iron;
FIG. 2 illustrates a side elevational view thereof, the opposite side, except for the absence of the rectangular element shown to the lower right of the handle opening in FIG. 2, being the same in appearance;
FIG. 3 illustrates a top plan view thereof;
FIG. 4 illustrates a front elevational view thereof;
FIG. 5 illustrates a rear elevational view thereof; and,
FIG. 6 illustrates a bottom plan view thereof.

1 Claim, 6 Drawing Sheets



DEFENDANT'S EXHIBIT O

A-2911

US005463205A

United States Patent [19]

Sham et al.

[11] Patent Number: 5,463,205

[45] Date of Patent: Oct. 31, 1995

[54] PHOTOSENSITIVE SWITCHING APPARATUS FOR AN ELECTRIC APPLIANCE

[75] Inventors: John C. K. Sham, Hong Kong; Fan Kai Leung, Pok Fu Lam, both of Hong Kong

[73] Assignee: Pentalpha Enterprises Ltd., Aberdeen, Hong Kong

[21] Appl. No.: 301,685

[22] Filed: Sep. 7, 1994

Related U.S. Application Data

[63] Continuation-in-part of Ser. No. 245,964, May 19, 1994.

[51] Int. Cl.[6] H05B 1/02; H05B 17/96

[52] U.S. Cl. 219/502; 219/250; 219/252; 219/257; 219/492; 219/508; 340/555

[58] Field of Search 219/250-251, 219/492, 497, 507, 508, 502, 257, 241-243, 340/555, 556, 573

[56] References Cited

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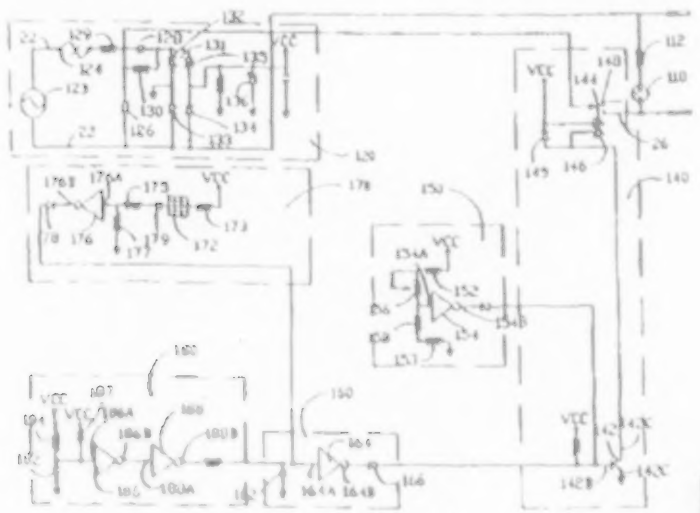
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Primary Examiner—Mark H. Paschall

[57] ABSTRACT

An automatic switching apparatus for a hand held electrically operated appliance, such as a pressing iron. The automatic switching apparatus is provided within a circuit board located within the housing of the iron. The automatic switching apparatus includes a first timing circuit and a photosensitive switch which function in conjunction with one another such that when the user breaks contact with the photosensitive switch located on the handle portion of the iron, the first timing circuit is enabled to de-energize the heating element of the iron after contact has been broken with the photo sensitive switch for a predetermined period of time. A second timing circuit is provided to disable the first timing circuit for a second predetermined period of time when the iron is initially plugged into the wall outlet so as to permit the heating element to reach a temperature level suitable for ironing without necessitating the user to contact the photosensitive switch when the heating element is initially energized. A temperature sensitive circuit is further provided to de-energize the heating element at a predetermined temperature.

20 Claims, 4 Drawing Sheets



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A-2918

US00D373872S

United States Patent (19)

Sham

[11] Patent Number: Des. 373,872
[45] Date of Patent: **Sep. 17, 1996

[54] STEAM IRON

[76] Inventor: John C. K. Sham, Rm. 1508, Block C, 19 Broadwood Rd., Hung Kung, Hung Kong

[**] Term: 14 Years

[21] Appl. No.: 34,142

[22] Filed: Jan. 25, 1995

[52] U.S. Cl. D32/70

[58] Field of Search D32/68, 70; 219/245, 219/247, 250; 38/69, 74, 77.1, 77.2, 77.3, 77.4, 77.5, 77.8, 79, 88

[56] References Cited

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61-257695 11/1986 Japan .

Primary Examiner—A. Hugo Word
Assistant Examiner—Cynthia F. Rambert

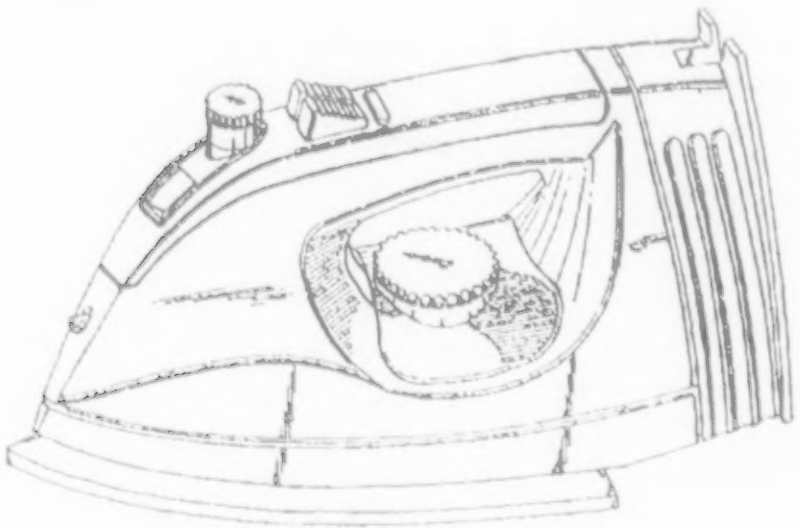
[57] CLAIM

The ornamental design for a steam iron, as shown and described.

DESCRIPTION

FIG. 1 illustrates a top, front and side perspective view of my new design for a steam iron;
FIG. 2 illustrates a side elevational view thereof;
FIG. 3 illustrates a front elevational view thereof;
FIG. 4 illustrates a rear elevational view thereof;
FIG. 5 illustrates a top plan view thereof; and,
FIG. 6 illustrates a bottom plan view thereof.

1 Claim, 5 Drawing Sheets





US005595672A

United States Patent [19]

Sham et al.

[11] Patent Number: 5,595,672

[45] Date of Patent: Jan. 21, 1997

[54] AUTOMATIC POWER INTERRUPTING APPARATUS FOR AN ELECTRIC APPLIANCE

[75] Inventors: John C. K. Sham, Hong Kong; Wan K. Leung, Pok fu lam, both of Hong Kong

[73] Assignee: Pendelphia Enterprises Ltd., Hong Kong

[21] Appl. No.: 345,964

[22] Filed: May 19, 1994

[51] Int. Cl.[6] H01K 17/96; D06F 75/26

[52] U.S. Cl. 219/257; 219/509; 38/74

[58] Field of Search 219/257, 250, 219/251, 493, 505, 240, 516; 38/74, 82; 307/141; 99/332, 337

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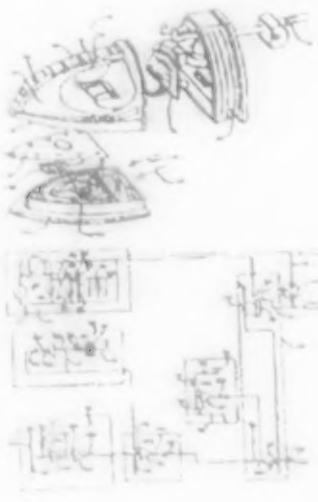
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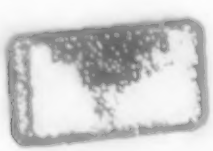
Primary Examiner—John A. Jeffery
Attorney, Agent, or Firm—Salzman & Levy

[57] ABSTRACT

An automatic switching apparatus for a hand held electrically operated appliance, such as a pressing iron, is provided within a circuit board located within the housing of the iron. The automatic switching apparatus includes a first timing circuit and a touch sensitive switch which function in conjunction with one another such that when the user breaks contact with the touch sensitive switch, located on the handle portion of the iron, the first timing circuit is enabled to de-energize the heating element of the iron after contact has been broken with the touch sensitive switch for a predetermined period of time. A second timing circuit is provided to disable the first timing circuit for a second predetermined period of time when the iron is initially plugged into the wall outlet so as to permit the heating element to reach a temperature level suitable for ironing without necessitating the user to contact the touch sensitive switch when the heating element is initially energized. A temperature sensitive circuit is further provided to de-energize the heating element at a predetermined temperature.

18 Claims, 3 Drawing Sheets





A-2936

US005680810A

United States Patent [19]

Sham

[11] Patent Number: 5,680,810

[45] Date of Patent: Oct. 28, 1997

[54] STEAM TOASTER OVEN

[76] Inventor: John C. K. Sham, Rm. 1508, Block C, 19 Broadhead Road, Hong Kong, Hong Kong

[21] Appl. No.: 759,327

[22] Filed: Dec. 2, 1996

Related U.S. Application Data

[60] Provisional application No. 60/023,624, Aug. 9, 1996.

[51] Int. Cl.[6] A47J 37/04, A47J 37/04, A21B 1/00

[52] U.S. Cl. 99/330; 99/339; 99/468; 99/476; 99/483; 99/516; 126/20; 126/369; 219/385; 219/401

[58] Field of Search ..... 99/325-332, 339, 99/340, 400, 401, 444-446, 467, 468, 469, 473-476, 480, 483, 516, 534, 536; 126/20, 21 A, 369, 369.1, 369.2, 20.1, 20.2; 219/401, 444, 442, 385, 386, 521; 426/510, 523

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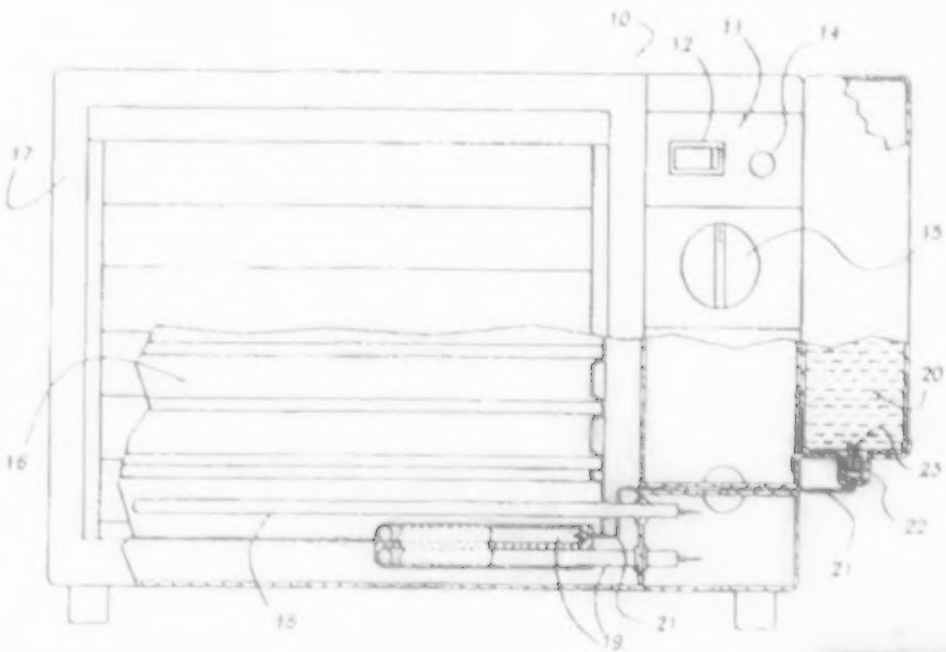
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Primary Examiner—Timothy F. Simone
Attorney, Agent, or Firm—Salzman & Levy

[57] ABSTRACT

The present invention features a toaster oven that can both steam and heat food. While this toaster oven works in the traditional sense, it also has the capability of rapidly generating and introducing steam into the cooking chamber. The steam is generated in a water tube or a boiling pan that is placed adjacent the toaster oven's infrared heating coils. Water for making steam is introduced into a reservoir located in the toaster oven's housing. The reservoir can be either permanently situated in the housing, or it can be of the removable, refillable type, that is, a container that can be filled and cleaned periodically. A microprocessor controls both the steam generation and the heating cycles. The microprocessor is operative via a computer routine that monitors sensors that are positioned about the housing of the toaster oven. The microprocessor also meters the water flowing from the reservoir into the water tubes or boiling pan. A one-way valve ensures that the water flow is positively directed into the water tubes or the boiling pan. A control knob located on the toaster oven's control panel allows a user to select the amount of steam being injected into the cooking chamber.

20 Claims, 10 Drawing Sheets



DEFENDANT'S EXHIBIT S

US005692315A

United States Patent [19]

Sham

[11] Patent Number: 5,692,315

[45] Date of Patent: Dec. 2, 1997

[54] HAIR STEAMING APPARATUS

[76] Inventor: John C. K. Sham, Rm. 1508, Block C, 19 Broadwood Rd., Hong Kong, Hong Kong

[21] Appl. No.: 552,501

[22] Filed: Nov. 9, 1995

[51] Int. Cl.[6] A45D 06/00

[52] U.S. Cl. 34/99

[58] Field of Search 34/283, 97, 98, 34/99, 100; 132/212, 272, 219/222, 225, 226, 228; 392/380, 382, 383

[56] References Cited

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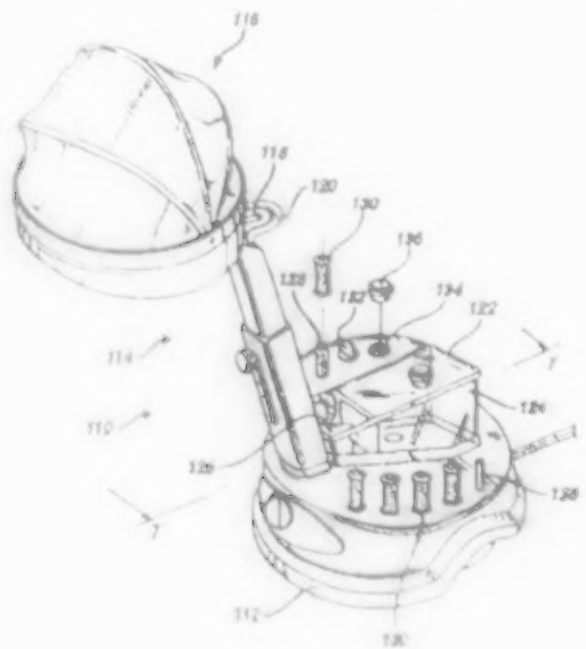
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Primary Examiner—John M. Sollecito
Assistant Examiner—Steve Gravini
Attorney, Agent, or Firm—Salzman & Levy

[57] ABSTRACT

A portable hair steamer suitable for direct application of steam to the hair of the user. The portable hair steamer generally includes a base having a steaming chamber disposed therein and a hood to surround the head of the user. A detachable water tank having a drip or check valve is provided to supply a predetermined rate of water to the steaming chamber. A telescoping neck is provided intermediate the hood and the base and is adjustable for the comfort of the user. The telescoping neck and hood are collapsible against the base to facilitate transportation and storage. An auxiliary steaming chamber may be provided to perform hair curlers.

14 Claims, 9 Drawing Sheets



US00D389968S

United States Patent [19]

Sham

[11] Patent Number: Des. 389,968

[45] Date of Patent: **Jan. 27, 1998

[54] TRAVEL STEAM IRON

[76] Inventor: John C. K. Sham, Rm. 1508, Block C, 19 Broadwood Rd., Hong Kong, Hong Kong

[**] Term: 14 Years

[21] Appl. No.: 44,561

[22] Filed: Sep. 26, 1995

[51] LOC (6) Cl. 07-05

[52] U.S. Cl. D32/70

[58] Field of Search D32/68, 69, 70, D32/71, 72, 73; 219/245, 246, 247; 38/69, 74, 77.1-77.9, 79, 88

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D. 315,433	3/1991	Chen	D27/68
D. 327,150	6/1992	Gudefin et al.	D32/70
D. 362,944	10/1995	Sham et al.	D32/70
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FOREIGN PATENT DOCUMENTS

61-253695 11/1986 Japan

Primary Examiner—Susan J. Lucas
Assistant Examiner—Cynthia E. Ramirez
Attorney, Agent, or Firm—Salzman & Levy

[57] CLAIM

The ornamental design for a travel steam iron, as shown and described.

DESCRIPTION

FIG. 1 illustrates a top, front and left side perspective view of my new design for a travel steam iron in the operating position;

FIG. 2 illustrates a top view thereof;

FIG. 3 illustrates a left side elevational view thereof;

FIG. 4 illustrates a right side elevational view thereof;

FIG. 5 illustrates a front elevational view thereof;

FIG. 6 illustrates a rear elevational view thereof;

FIG. 7 illustrates a bottom view thereof;

FIG. 8 illustrates a top, front and left side perspective view of my new design for a travel steam iron in the collapsed position;

FIG. 9 illustrates a top view of the iron of FIG. 8;

FIG. 10 illustrates a left side elevational view of the iron of FIG. 8;

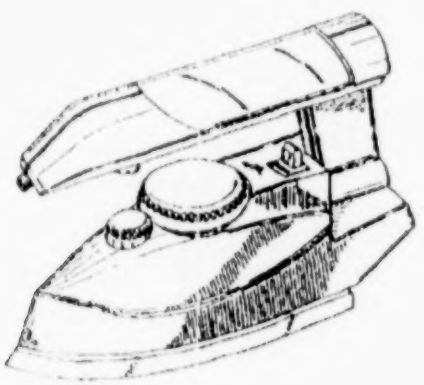
FIG. 11 illustrates a right side elevational view of the iron of FIG. 8;

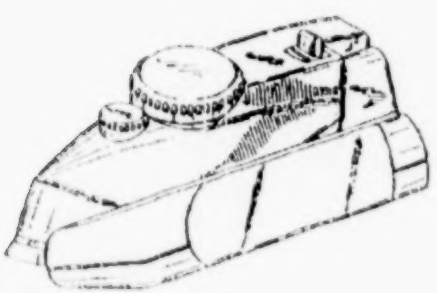
FIG. 12 illustrates a front elevational view of the iron of FIG. 8;

FIG. 13 illustrates a rear elevational view of the iron of FIG. 8; and

FIG. 14 illustrates a bottom view of the iron of FIG. 8.

1 Claim, 7 Drawing Sheets





DEFENDANT'S EXHIBIT U

US005735190A

United States Patent [19]

Sham

[11] Patent Number: 5,735,190

[45] Date of Patent: Apr. 7, 1998

[54] **COMBINATION BREAD-BAKING MACHINE AND CONVECTION OVEN**

[76] Inventor: John C. K. Sham, Rm. 1508, Block C, 19 Broadhead Road, Hong Kong, Hong Kong

[21] Appl. No.: 758,840

[22] Filed: Dec. 2, 1996

Related U.S. Application Data

[60] Provisional application No. 60/023,626, Aug. 9, 1996.

[51] Int. Cl. [6] A47J 27/00

[52] U.S. Cl. 99/327; 99/340; 99/348; 99/357; 99/468; 366/144; 366/146; 366/314

[58] Field of Search ..... 99/325-333, 340, 99/339, 348, 357, 467, 448, 468, 483; 366/69, 98, 144-146, 314, 601; 126/21 A; 426/504, 512; 219/400, 401

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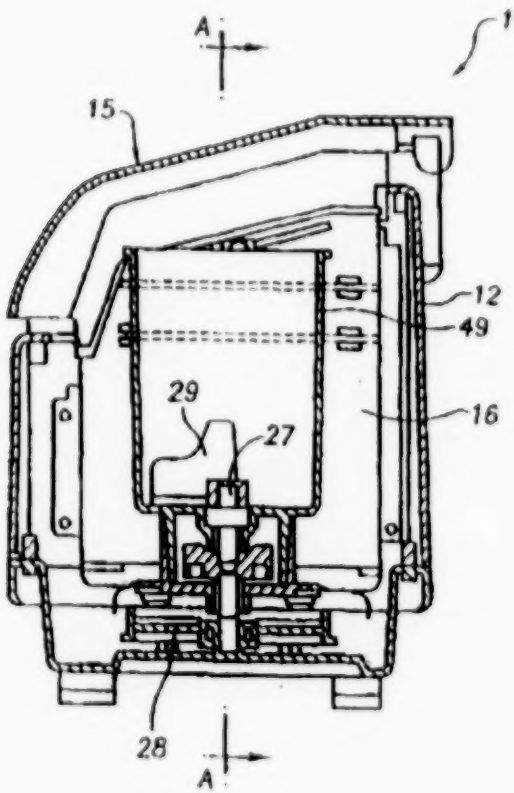
5,445,061 8/1995 Barrada 99/340

Primary Examiner—Timothy F. Simone
Attorney, Agent, or Firm—Salzman & Levy

[57] **ABSTRACT**

The present invention features a combination bread-baker and a convection oven that bakes or cooks food thoroughly and evenly. Air is circulated through the baking or cooking chamber via a fan disposed in the side of the baking/cooking chamber. Steam can be introduced into the baking/cooking chamber during a cooking cycle by means of a steam-generator. A water reservoir supplies water to a steam-generating tube that is contiguously adjacent a portion of the heating coil. A microprocessor digitally controls both the baking and the cooking cycles. A pair of sensors positioned about the baking/cooking chamber send signals to the microprocessor that indicate levels of both heat and humidity within the chamber. The sensors continuously monitor the baking or cooking conditions within the chamber. The microprocessor uses the updated information to continuously adjust either the amount of steam being introduced, or the speed of the fan for adjusting the circulating air. A rotational drive-motor used to turn a wand that kneads the dough when making bread can also be used to stir soups and gravies during a cooking cycle. The wand can also be replaced by a spit to support and rotate a roast or fowl during a cooking cycle, giving rise to a rotisserie operation. The convection currents of the oven, the steam injection and the rotisserie function all ensure that food is thoroughly and evenly cooked.

17 Claims, 9 Drawing Sheets



DEFENDANT'S EXHIBIT V

US005771781A

United States Patent [19]

Sham

[11] Patent Number: 5,771,781

[45] Date of Patent: Jun. 30, 1998

[54] ELECTRICAL DEEP-FRYER

[75] Inventor: John C. K. Sham, Hong Kong, Hong Kong

[73] Assignee: Pentalpha Enterprises Ltd., Aberdeen, Hong Kong

[21] Appl. No.: 901,526

[22] Filed: Jul. 28, 1997

[51] Int. Cl.[6] A47J 37/12

[52] U.S. Cl. 99/336; 99/348; 99/407; 99/409; 99/410

[58] Field of Search ..... 99/330-336, 403-407, 99/408-417, 348, 427; 210/167, DIG. 8; 126/391, 219

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U.S. PATENT DOCUMENTS

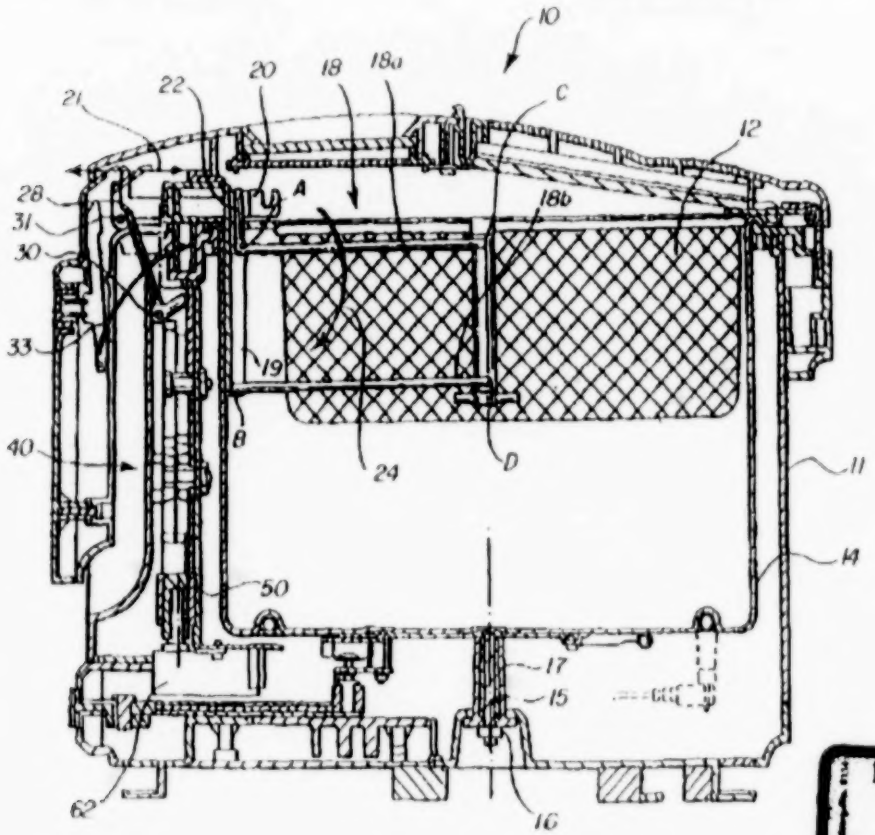
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Primary Examiner—Timothy F. Simone
Attorney, Agent, or Firm—Salzman & Levy

[57] ABSTRACT

The present invention features an electrical, frying appliance that uniformly cooks food items placed within its frying basket. This frying appliance cyclically immerses and extracts the cooking basket into and out of a pan containing heated oil. In this fashion, the food in the basket is uniformly fried during the cooking cycle. The frying appliance contains a translationally moveable basket that operates by a parallel linkage driven by a gear train and worm drive mechanism. The translational movement of the basket allows the food in it to lie flat as it is immersed in the oil. The frying basket remains substantially horizontal during its movement between its immersed and non-immersed positions. In this fashion, the food items are prevented from shifting around in the frying basket. This allows the food to fry evenly within the basket and, when cycled, to be drained of oil periodically. The gear train and worm drive mechanisms that move the basket are both powered by a motor that is offset from the oil pan housing, allowing for a cooler, operational motor temperature. The motor is less subject to heated oil vapors and oil leakage that are usually associated with motors located at the bottom of an oil pan housing. The gear train and worm drive mechanisms are also offset from the oil pan, and are protected from heated oil vapors by the outside wall of the oil pan housing.

24 Claims, 6 Drawing Sheets



DEFENDANT'S EXHIBIT W

US005771784A

United States Patent [19]

Sham

[11] Patent Number: 5,771,784

[45] Date of Patent: Jun. 30, 1998

[54] PADDLE FOR BREAD-MAKING MACHINE

[75] Inventor: John C. K. Sham, Hong Kong, Hong Kong

[73] Assignee: Pentalpha Enterprises Ltd., Aberdeen, Hong Kong

[21] Appl. No.: 901,176

[22] Filed: Jul. 28, 1997

[51] Int. Cl.[6] A21D 2/00; A21D 8/00; A47J 27/00; A47J 37/00

[52] U.S. Cl. 99/348, 99/468, 366/98, 366/146; 366/314

[58] Field of Search 99/348, 468, 467, 99/326–333, 352, 353, 483; 366/144–146, 149, 96–98, 69, 205, 314, 343, 601

[56] References Cited

U.S. PATENT DOCUMENTS

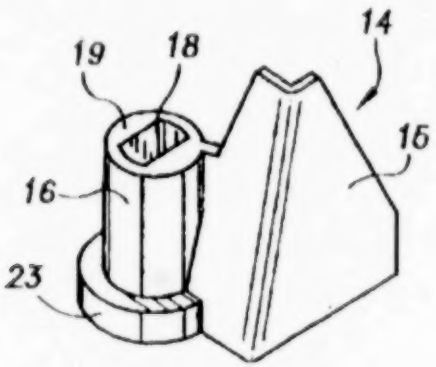
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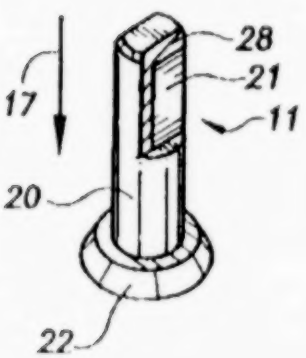
Primary Examiner—Timothy F. Simone
Attorney, Agent, or Firm—Salzman & Levy

[57] ABSTRACT

The present invention features a bread-making machine that has a kneading paddle which remains in the bucket after the baking cycle. The bread-making machine automatically entraps, or vertically constrains, the kneading paddle to the rotating drive shaft. Upon the initial rotation of the drive shaft, the paddle shifts backwardly with respect to the drive shaft under a reactive, inertial force. The paddle will rotate approximately twenty-five degrees in a counterclockwise direction with respect to the shaft. This is made possible by the looseness of the fit of the drive shaft within the paddle's bore. A lip positioned on the top of the drive shaft will engage the top surface of the paddle hub, when the paddle is caused to shift. This engagement will capture the paddle, causing it to become vertically constrained to the drive shaft. Upon completion of the baking cycle, the baked bread can be removed without the paddle, which remains affixed to the drive shaft. The paddle hub has a bore that has an approximately rectangular, cross-sectional shape. The bore receives the substantially rectangular drive shaft. The paddle is initially deposited over the drive shaft, and the dough is placed in the bucket. The paddle is automatically, vertically locked into place, when the kneading cycle is commenced.

3 Claims, 2 Drawing Sheets





DEFENDANT'S EXHIBIT X

US005810026A

United States Patent [19]

Sham

[11] Patent Number: 5,810,026

[45] Date of Patent: Sep. 22, 1998

[54] ELECTRIC HAIR-CURLING APPARATUS

[75] Inventor: John C. K. Sham, Hong Kong, Hong Kong

[73] Assignee: Pentalpha Enterprises Ltd., Aberdeen, Hong Kong

[21] Appl. No.: 753,836

[22] Filed: Dec. 2, 1996

Related U.S. Application Data

[60] Provisional application No. 60/023,627.

[51] Int. Cl. [6] A45D 1/04

[52] U.S. Cl. 132/232; 132/236

[58] Field of Search 132/232, 229, 132/231, 234, 269, 224, 219/225, 226, 222

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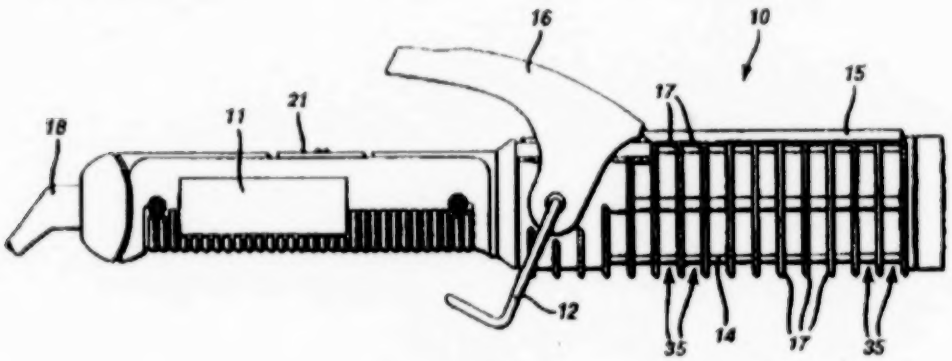
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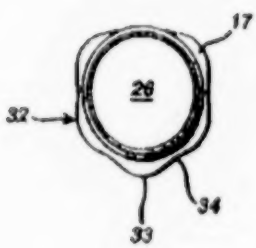
Primary Examiner—Todd E. Manahan
Attorney, Agent, or Firm—Salzman & Levy

[57] ABSTRACT

The present invention features an electric, hair-curling apparatus. The hair curler is designed to prevent the heated wand from coming into unwanted contact with other surfaces and parts of the body. Its purpose is to prevent accidental injuries or burns to the body surfaces of a user or to furniture, etc. The electric hair-curler is fabricated having many insulative ribs that are periodically spaced apart and located along a longitudinal axis of the wand. These ribs are operative in shielding the heated surface of the wand from contact with unwanted surfaces, including parts of the user's body. Having a sinusoidally-shaped or undulating periphery, the ribs allow hair to easily flow into the interstitial wells between the ribs; hair flowing into the wells is free to contact the wand surface. The ribs are also designed with a wide, circumferential portion that is positioned substantially flush with the wand surface at the section of contact with the clamp. At that wand contact position with the clamp, the ribs present an open, or a completely flush, position. This creates a restriction-free area or surface in which hair can enter and be withdrawn from the clamp, without interference or inhibition from the ribs.

17 Claims, 5 Drawing Sheets





DEFENDANT'S EXHIBIT Y

US005819364A

United States Patent [19]

Sham

[11] Patent Number: 5,819,364

[45] Date of Patent: Oct. 13, 1998

[54] **DETACHABLE HANDLE ACCESSORY FOR A PORTABLE STEAM VACUUM CLEANER**

[75] Inventor: John C. K. Sham, Hong Kong, Hong Kong

[73] Assignee: Pentalpha Enterprises, Ltd., Aberdeen, Hong Kong

[21] Appl. No.: 526,878

[22] Filed: Sep. 12, 1995

Related U.S. Application Data

[63] Continuation-in-part of Ser. No. 323,242, Oct. 14, 1994, abandoned, which is a continuation of Ser. No. 101,852, Aug. 14, 1993, abandoned, which is a division of Ser. No. 942,308, Sep. 9, 1992, Pat. No. 5,341,541.

[51] Int. Cl.[6] A47L 9/32

[52] U.S. Cl. 15/320, 15/329, 15/344; 15/410

[58] Field of Search 15/320, 344, 410, 15/329

[56] References Cited

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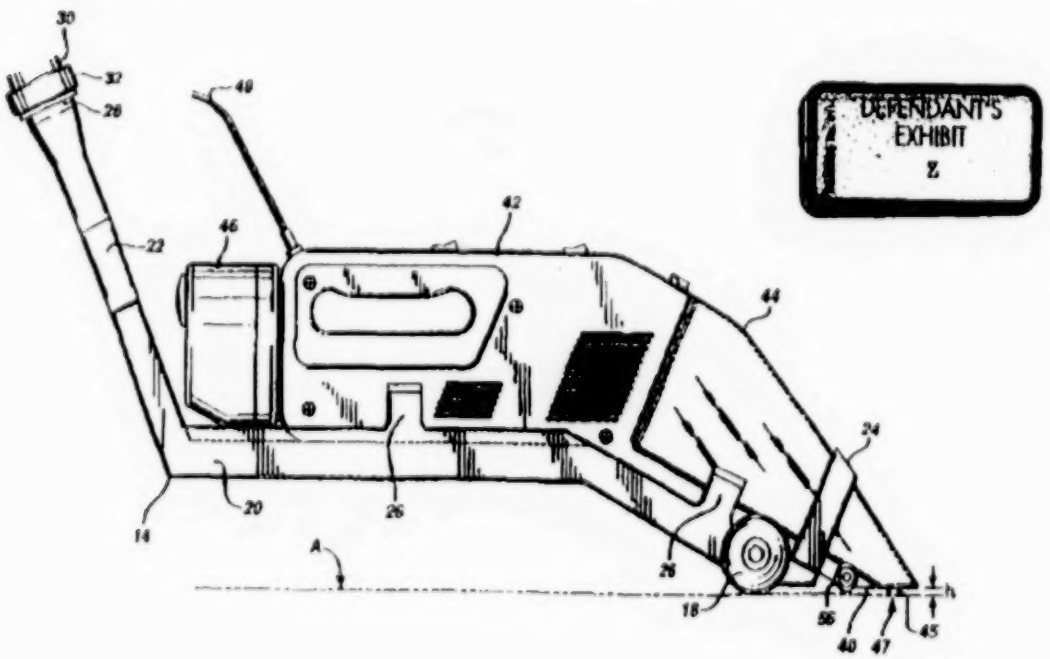
Primary Examiner—Chris K. Moore

Attorney, Agent, or Firm—Salzman & Levy

[57] **ABSTRACT**

A detachable handle accessory is provided which permits a user to operate a portable, hand-held steam vacuum cleaner as an upright steam vacuum cleaner. The detachable handle accessory includes a support base, a handle portion extending upwardly from the support base and a wheel assembly affixed to the support base. The support base includes mounting structure which allows a nozzle of a hand-held steam vacuum cleaner to be located intermediate the support base and surface to be cleaned so as to permit an unobstructed flow of steam from the portable vacuum cleaner to the surface. The handle portion is used to control and steer the nozzle over the surface while the wheel assembly allows a user to roll the support base and steam vacuum cleaner over the surface from an upright position, and to engage a squeegee member at the distal end of the nozzle with the surface to be cleaned to facilitate gathering of liquid and enhance the suctioning process of the vacuum cleaner.

16 Claims, 5 Drawing Sheets



DEFENDANT'S EXHIBIT Z

US005822821A

United States Patent [19]

Sham

[11] Patent Number: 5,822,821

[45] Date of Patent: Oct. 20, 1998

[54] ELECTRIC TOOTHBRUSH

[75] Inventor: John C. K. Sham, Hong Kong, Hong Kong

[73] Assignee: Pentalpha Enterprises Ltd., Hong Kong

[21] Appl. No.: 585,849

[22] Filed: Jan. 12, 1996

[51] Int. Cl.[6] A46B 13/02

[52] U.S. Cl. 15/22.1, 15/23

[58] Field of Search 15/22.2, 22.1, 15/23

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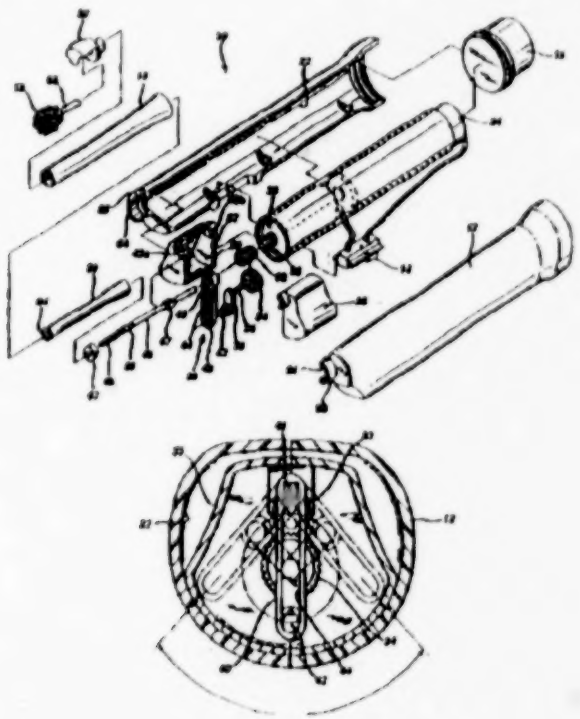
Primary Examiner—Randall E. Chin

Attorney, Agent, or Firm—Salzman & Levy

[57] ABSTRACT

An electric toothbrush is disclosed which includes an elongate body defining a handle, an elongate housing extending from the body and supporting a brush head at a distal end thereof, a drive shaft rotatably mounted within the housing and connected to the brush head, a motor disposed within the body and including a rotating output shaft, and a transmission assembly adapted to convert the rotational movement of the output shaft into reciprocating rotation of the drive shaft and brush head about a common axis of rotation.

1 Claim, 7 Drawing Sheets



DEFENDANT'S EXHIBIT AA

port Order
ntgomery Ward & Co., Incorporated

7961

005639
PENTALPHA ENTERPRISES LIMITED
9-10/F 12-13/F,KIN TECK
IND. BLDG. 26 WONG CHUK HANG RD
ABERDEEN
HONG KONG

86 09 05/19/98 2 4

1001215
DONG GUAN WING SHING PRODUCTS
CO. LTD.
GALAXY INDUSTRIAL DISTRICT
DONGGUAN
CHINA

Selling Season	Ready For Shipment
F98	06/19/98

ETA

Montgomery Ward No.	Routing Via	Quantity Per Rtg.	Unit	Unit Cost
45642	SWC	1404	EA	31.570

Merchandise Description:
''ADMIRAL'' DEEP FRYER, 15 MIN. TIMER. ON-OFF POWER SWITCH & AUTO
AUTO-OFF. 130-180° C. SLIDING TEMP. CONTROL. EA / ADMIRAL
GIFT BOX. 2 EA / MST CTN. 1404 EA / 40'.

Country Of Origin : CHINA
Purchase Terms : FOB HONG KONG
Class : 09
Manufacturer Number: KA603B

Cost	Description / Duty Para.	D	Ad	Valorem Amount	--Specific Duty-- Rate	Unit	Amount	Quota
31.57	8516.79.0000		3.200	1.0102	0.000		0.0000	/

Import Order Executed on Behalf of Montgomery Ward & Co, Incorporated
M BENNETT
X
Buyer
J. J. DOWLING
X
Merchandise Manager

Wards

CONFIDENTIAL

P 000104

DEFENDANT'S EXHIBIT
AX

Attn: Ms Ho
For: Sandy Pg 1/2

COMMERCIAL INVOICE

6 Jul 98

SELLER/SHIPPER: PENTALPHA ENTERPRISES LIMITED 9-10/F 12-13/F, KIN TECK IND. BLDG. 26 WONG CHUK HANG RD. ABERDEEN, HONG KONG	INVOICE NO. & DATE: 3523698 3-Jul-98 L/C NO. & DATE: 1-435-NE486-70031592 DATED 25 MAY 1998
BUYER: MONTGOMERY WARD AND COMPANY, INC. MONTGOMERY WARD PLAZA CHICAGO, IL 60671-0042	L/C ISSUING BANK: BANKBOSTON, N.A. 150 FEDERAL STREET TRADE SERVICES/NASSAU BOSTON MA 02110 UNITED STATES REMARKS:
NAME OF VESSEL: EVER UNION V 0744-013E SAILING ON OR ABOUT: 6 Jul 98	
FROM: HONG KONG TO: LOS ANGELES, CA	DUTY PARA & RATE: 8516.79.0000 3.2% IPO NUMBER: 7961
FINAL DESTINATION: CHINO (LAWX) COUNTRY OF ORIGIN: CHINA	

MARKS & NUMBERS	WARDS STYLE NBR	FULL DESCRIPTION OF GOODS	QUANTITY	FOB HONG KONG UNIT PRICE	FOB HONG KONG AMOUNT
M.W. 86-7961 4564205 LAWX CASE# 1-702 MADE IN CHINA	4564205	DEEP FRYER #8803176 PO NO. 7961-86 DEPT. NO.: 86 Remark: "Admiral" Deep Fryer, 15 Min. Timer, On-Off Power Switch & Auto Shut-Off, 130-180 C. Sliding Temp. Control. EA/Admiral Gift Box: 2 EA / MST CTN: 1404 EA / 40'	1404 UNITS (EA)	USD31.57	USD44,334.28

TOTAL AMOUNT: SAY UNITED STATES DOLLARS FORTY FOUR THOUSAND THREE HUNDRED TWENTY FOUR AND CENTS TWENTY EIGHT ONLY.**

THE FACTORY NAME AND ADDRESS WHERE THE MERCHANDISE WAS MANUFACTURED AS:
DO[illegible] GUAN WING SHING PRODUCTS CO. LTD.
GA[illegible]Y INDUSTRIAL DISTRICT, DONGGUAN, CHINA
TELEPHONE NUMBER: 7738870

* The invoice value shown hereon does not include either the cost of printed paper labels or the cost of shipping such labels to the location where they were affixed to the buyer's merchandise, the total United States dollar value of which is USD14.04. The buyer paid for the tickets and for the ticket shipping charge.

For and on behalf of
PENTALPHA ENTERPRISES LIMITED.

Signed By _____ Authorized Signature(s)

CONFIDENTIAL P 000105

WING SHING PRODUCTS (BVI) COMPANY LTD.

~~GALAXY INDUSTRIAL DISTRICT, DONGGUAN CITY,~~

C/O WING LEE SHUN TRADING CO LTD, ~~6/F~~ KIN TECH INDUSTRIAL BLDG, 26 WING CHUK HANG RD, ACAREEN, HONG KONG.

TRUSTNET CHAMBERS P.O.BOX 3444, RD T TORTOLA, BRITISH VIRGIN ISLANDS

INVOICE

FINGERHUT CORPORATION
4400 BAKER ROAD,
INNETONKA,MN 55343 P.1 OF 2

Ref. BY L/C AT SIGHT
Payment: "APL SINGAPORE" V.030E
Shipment: ON/ABT 18APR99 FROM YANTIAN TO SEATTLE
Date: 15 APR 99

No. W243699

Quantity	Model No.	DESCRIPTION	Unit Price	Amount
	6038			FOB YANTIAN,CHINA
1290PCS		GENERAL RETAIL CONSUMER MERCHANDISE AS DESCRIBED ON THE PURCHASE ORDER: DEEP FRYER CHEF'S MARK KA-603-T PURCHASE ORDER NUMBER(S) PI-0888457 AND PRODUCT CODE NUMBER(S) 4152FL0010	US$28.75	US$37,087.50
1290PCS		DEEP FRYER CHEF'S MARK KA-603-T PURCHASE ORDER NUMBER(S) PI-0895066 AND PRODUCT CODE NUMBER(S) 4152FL0010	US$28.75	US$37,087.50
100PCS		SPARE PARTS:	US$2.50	US$250.00
2580PCS & SPARE PARTS 100 PCS		FRYER DEEP REPLACEMENT FILTER DF-1 PURCHASE ORDER NUMBER(S) PI-0888457 AND PRODUCT CODE NUMBER(S) 41FM670010		US$74,425.00

WE HEREBY DECLARE THAT THE MERCHANDISE LISTED ON THIS INVOICE WAS PART OF A SHIPMENT DEPARTING CHINA OR HONG KONG THAT DID NOT CONTAIN SOLID WOOD PACKING MATERIALS."

COUNTRY OF ORIGIN: CHINA.
NAME AND STREET ADDRESS OF THE MANUFACTURER IS:
DONGGUAN WING SHING ELECTRICAL PRODUCTS FACTORY CO.,LTD
GALAXY INDUSTRIAL DISTRICT,DONGGUAN CITY, CHINA.

IN ORDER TO COMPLY WITH U.S.CUSTOMS REGULATIONS THE COMMERCIAL INVOICE MUST INCLUDE THE FOLOWING:
THE VALUE AND MATERIAL CONTENT OF :

PLASTIC	: US$6.39	UNIT PRICE/TOTAL FOB:US$28.75
METAL	:US$16.05	
ELECTRONICS	: US$1.59	
LABOUR COST	: US$2.65	
PACKING COST	: US$1.60	
TRANSPORTATION	: US$0.47	

CONFIDENTIAL

P 000220

DEFENDANT'S EXHIBIT
BY

COMMERCIAL INVOICE

SELLER/SHIPPER: PENTALPHA ENTERPRISES LIMITED 9-10/F 12-13/F, KIN TECK IND. BLDG 26 WONG CHUK HANG RD. ABERDEEN, HONG KONG	INVOICE NO. & DATE: 5469/99 3-Dec-99 L/C NO. & DATE: 150"121 DATED 29 OCT 99
BUYER: MONTGOMERY WARD, LLC 535 W CHICAGO AVE CHICAGO IL 60671	L/C ISSUING BANK: LASALLE BANK, CHICAGO ILLINOIS U.S.A. REMARKS:
NAME OF VESSEL: MING PROPITIOUS V 96E SAILING ON OR ABOUT: 3-Dec-99	
FROM: YAN" V, CHINA TO: LOS ANGELES	DUTY PARA & RATE: 8516.79 0000 2.7% IPO NUMBER: 86-5356
FINAL DESTINATION: CHINO, CA COUNTRY OF ORIGIN: CHINA	

MARKS & NUMBERS	ARTICLE NO/ WARD STYLE NBR.	FULL DESCRIPTION OF GOODS	QUANTITY	UNIT PRICE	FOB YANTIAN, CHINA AMOUNT
M.W. 86-5356 456770) L/NO. CASE# 1-1404 MADE IN CHINA	45677 456770)	ADMIRAL DEEP FRYER IMPORT ORDER/PO NO.): 86-5356 DEPT. NO.: 86 Remark: "Admiral" Deep Fryer, 15 Min. Timer, On-Off Power Switch, 130-190 C. Sliding Temp. Control. EA/Admiral Gift Box. 2 EA / MST CTN. 1404 EA / 702	2803 UNITS (EA)	USD27.50	USD77,220.80

TOTAL AMOUNT: SAY UNITED STATES DOLLARS SEVENTY SEVEN THOUSAND TWO HUNDRED TWENTY ONLY.***

THE FACTORY NAME AND ADDRESS WHERE THE MERCHANDISE WAS MANUFACTURED AS:
DONG GUAN WING SHING PRODUCTS CO. LTD.
GALAXY INDUSTRIAL DISTRICT, DONGGUAN, CHINA
TELEPHONE NUMBER: 7735570

DEFENDANT'S EXHIBIT CA

The invoice value shown hereon does not include either the cost of printed paper labels or the cost of shipping such labels to the location where they were affixed to the buyer's merchandise, the total United States dollar value of which is USD28.98. The buyer paid for the labels and for the label shipping charge.

PENTALPHA ENTERPRISES LIMITED

Signed By: _____

CONFIDENTIAL

P 000168

WING SHING PRODUCTS (BVI) COMPANY LTD.

TRUSTNET CHAMBERS P.O.BOX 3444, RO TOWN, TORTOLA
BRITISH VIRGIN ISLANDS
C/O KONG LEE SHIN TRADING CO LTD, 4/F KIN TECH INDUSTRIAL BLDG
26 WONG CHUK HANG RD, ABERDEEN, HONG KONG.

INVOICE

BY L/C AT SIGHT

FINGERHUT CORPORATION
4400 BAKER ROAD,
MINNETONKA, MN 55343

Ref. "HONG KONG SENATORY 0119"

Payment: ONAABT 05DEC99 FROM YANTIAN TO SEATTLE

Shipment: 08 DEC 99

P.1 OF 2

WT: 5099

Date:

No.

Quantity	Model No.	DESCRIPTION	Unit Price	Amount
				FOB YANTIAN,CHINA
1291PCS		GENERAL RETAIL CONSUMER MERCHANDISE AS DESCRIBED ON THE PURCHASE ORDER: DEEP FRYER CHEF'S MARK KA-822BT PURCHASE ORDER NUMBER(S) P1-0981258 AND PRODUCT CODE NUMBER(S) 419R7F0010	US$28.75	US$37,087.50
10PCS 1291PCS & SPs REPARTS 100 PCS		SPARE PARTS: FRYER DEEP REPLACEMENT FILTER DF-1 PURCHASE ORDER NUMBER(S) P1-0981258 AND PRODUCT CODE NUMBER(S) 41PM670010	US$2.50	US$250.00 US$37,337.50

WE HEREBY DECLARE THAT THE MERCHANDISE LISTED ON THIS INVOICE WAS PART OF A SHIPMENT DEPARTING CHINA OR HONG KONG THAT DID NOT CONTAIN SOLID WOOD PACKING MATERIALS.

COUNTRY OF ORIGIN: CHINA

NAME AND STREET ADDRESS OF THE MANUFACTURER IS:
DONGGUAN WING SHING ELECTRICAL PRODUCTS FACTORY CO., LTD
GALAXY INDUSTRIAL DISTRICT, DONGGUAN CITY, CHINA

IN ORDER TO COMPLY WITH U.S.CUSTOMS REGULATIONS THE COMMERCIAL INVOICE MUST INCLUDE THE FOLOWING:
THE VALUE AND MATERIAL CONTENT OF :

PLASTIC	: US$6.39
METAL	:US$16.05
ELECTRONICS	: US$1.59
LABOUR COST	: US$2.65
PACKING COST	: US$1.60
TRANSPORTATION	: US$0.47

UNIT PRICE/TOTAL FOB US$28.75

SHIPPING MARK:

F

SEATTLE, WASHINGTON
ITEM NO :419R7F0010
P.O.NO.:P1 0981258
CARTON NO :1-645
MADE IN CHINA

SHIP TO NAME: FINGERHUT CORPORATION
PO NUMBER:P1-0981258
10 DIGIT SKU NUMBER:41PM670010
QUANTITY 100 PCS

DEFENDANT'S
ID. NUMBER:
EXHIBIT
8

CONFIDENTIAL P 000177

PO NUM: 01 - 0981260
REVISION: 00

VENDOR:
233567 PENTALPHA HONG KONG LIMITED
9-13/F, INDUSTRIAL BLDG
26 WONG CHUK HANG ROAD
ABERDEEN
HONG KONG
CHINA

FOB: YANTIAN-PCL
YANTIAN-CHINA
TERMS: Letter Of Credit
FREIGHT: COLLECT
L/C NUM: 6418455

SHIP DT: 12/20/1999
RUSH ORDER: Y

CONTACT: DAN MULLINS
FAX: 01185228730591

SHIP TYPE: WAREHOUSE SHIP METHOD: OCEAN

ITM	PROD CODE	DESCRIPTION	VNDR MODL	U/M	QUANTITY	COST	TOTAL
001	419R7F0010	DEEP FRYER @CHEF'S MARK	KA-B23BT	EA	1,290	[redacted]	[redacted]
002	[redacted]			EA	[redacted]	[redacted]	[redacted]

TOTAL PO COST: [redacted]
TOTAL CR AMT APPLIED:
NET PO COST:

CONFIRMED BY: MICHELLE AND: MICHEL ON: 10/20/1999

SHIP TO: DSI
BUILDING 23
6250 RIDGEWOOD ROAD

ST.CLOUD MN 56303

SHIPPING INSTRUCTIONS: CONTACT DSL SHENZHEN
TEL 86755-3211120
FAX 8675532615847 87

ANALYST: JOHNSON, SUE J.
PHONE: 952-936-5353
FAX: 952-937-3625

PCM: DRESSEN, NANCY
BUYER: 19 SEELEY, TODD
DIRECTOR:
VP: DAMROW, JOHN

(END OF PURCHASE ORDER)

WING SHING PRODUCTS (BVI) COMPANY LTD.

TRUSTNET CHAMBERS P.O.BOX 3444, RD TOWN, TORTOLA
BRITISH VIRGIN ISLANDS

C/O KING LEE [illegible] TRADING CO LTD,4/F KIN TEH IND.BLDG,26 WING CHUK HANG RD, ABERDEEN, HONG KONG.

INVOICE

FINCH RESORT CORPORATION
4401 FAYER ROAD,
MINNETONKA,MN 55343

P.1 OF 2

Ref. BY DC AT SIGHT "KANTIAN HONG KONG" C0152

Payment: ON/ABT 19DEC99 FROM

Shipment: YANTIAN TO SEATTLE

Date: 18 DEC 99

No. WS76139

Quantity	Model No.	DESCRIPTION	Unit Price	Amount
				FOB YANTIAN,CHIN
1250 CS		GENERAL RETAIL CONSUMER MERCHANDISE AS DESCRIBED ON THE PURCHASE ORDER. DEEP FRYER CHEF'S MARK KA-525BT PURCHASE ORDER NUMBER(S) P1-0981260 AND PRODUCT CODE NUMBER(S) 419R7F0010	US$23.75	US$37,057.50
100 PCS		SPARE PARTS: FRYER DEEP REPLACEMENT FILTER DF-1 PURCHASE ORDER NUMBER(S) P1-0981260 AND PRODUCT CODE NUMBER(S) 41FM670010	US$2.50	US$250.00
1140 CS 2400 PCS & SPARE PARTS 100 PCS		GRILL VERT ROTISSERIE KA-817A PURCHASE ORDER NUMBER(S) P1-0965768 AND PRODUCT CODE NUMBER(S) 41RW600010	US$23.75	US$26,362.50 US$63,700.00

WE HEREBY DECLARE THAT THE MERCHANDISE LISTED ON THIS INVOICE WAS PART OF A SHIPMENT DEPARTING CHINA OR HONG KONG THAT DID NOT CONTAIN SOLID WOOD PACKING MATERIALS.

COUNTRY OF ORIGIN: CHINA

NAME AND STREET ADDRESS OF THE MANUFACTURER IS:
DONGGUAN WING SHING ELECTRICAL PRODUCTS FACTORY CO.,LTD
GALAXY INDUSTRIAL DISTRICT,DONGGUAN CITY,CHINA.

IN ORDER TO COMPLY WITH U.S.CUSTOMS REGULATIONS THE COMMERCIAL INVOICE MUST INCLUDE THE FOLOWING:
THE VALUE AND MATERIAL CONTENT OF :

PLASTIC	:US$6.39	PLASTIC	:US$3.00
METAL	:US$16.05	METAL	:US$14.50
ELECTRONICS	:US$1.59	ELECTRONICS	:US$1.53
LABOUR COST	:US$2.65	LABOUR COST	:US$2.50
PACKING COST	:US$1.60	PACKING COST	:US$1.70
TRANSPORTATION	:US$0.47	TRANSPORTATION	:US$0.47
UNIT PRICE/TOTAL FOB	US$28.75	UNIT PRICE/TOTAL FOB	US$23.75

CONFIDENTIAL P 000179

07/06/00 BANK OF AMERICA Time: 18:01:20
ECNX M E M O Page: 1

Originator :BOACHIMEMO
Destination :FINGERHUT
From :EVELIA NAVICKAS Memo Id :CM1CJ
To :SARA STORY
Date :07/06/00

TO: FINGERHUT CORPORATION
FROM: BANK OF AMERICA, CHICAGO
RE: PAYMENT WORKSHEET

L/C NO.:6418455
RECEIVE DATE:07/05/00

BENEFICIARY: WING SHING PRODUCTS (EVI) CO. LTD.

DRAFT AMOUNT: [redacted]

P.O. NO.	QTY SHIP	UNIT PRICE	INVOICE VALUE	PRODUCT CODE	READY DATE
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
P1-0024472	[redacted]	[redacted]	[redacted]	4120YW0010	05/29/00
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

PAYMENT TOTAL: [redacted] NET DEBIT [redacted]

SHIP DATE	PENALTY FEES TAKEN ON INVOICE ON DRAFT	OFF DRAFT	OFF INVOICE ON DRAFT	OFF DRAFT	OTHER FEES
[redacted]				[redacted]	

THE FOLLOWING DISCREPANCIES HAVE BEEN NOTED ON DOCUMENTS PRESENTED UNDER THE ABOVE CAPTIONED LETTER OF CREDIT AS INDICATED:

1) LATE SHIPMENT ON ALL P.O.'S

PETITIONER'S BRIEF

Supreme Court, U.S.
FILED
NOV 29 2010
OFFICE OF THE CLERK

No. 10-6

IN THE

Supreme Court of the United States

GLOBAL-TECH APPLIANCES INC. and
PENTALPHA ENTERPRISES, LTD.,

Petitioners,

v.

SEB S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR PETITIONERS

WILLIAM DUNNEGAN
Counsel of Record
LAURA SCILEPPI
DUNNEGAN LLC
350 Fifth Avenue
New York, New York 10118
(212) 332-8300
wd@dunnegan.com

Counsel for Petitioners

233231

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

QUESTION PRESENTED

Whether the legal standard for the state of mind element of a claim for actively inducing infringement under 35 U.S.C. § 271(b) is "deliberate indifference" to a known risk that an infringement may occur, as the Court of Appeals for the Federal Circuit held, or "purposeful, culpable expression and conduct" to encourage an infringement, as this Court taught in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005)?

PARTIES TO THE PROCEEDING

The Petitioners here, and defendants-appellants in the Federal Circuit, are Global-Tech Appliances Inc. (now "Global-Tech Advanced Innovations Inc."), and Pentalpha Enterprises, Ltd. (now "Pentalpha Medical, Ltd.") (collectively "Pentalpha").

The Respondent here, and plaintiff-appellee in the Federal Circuit, is SEB S.A. ("SEB").

RULE 29.6 STATEMENT

Pentalpha Medical, Ltd. is a wholly-owned subsidiary of Global-Tech Advanced Innovations Inc., a publicly traded corporation on the NASDAQ Exchange. Wing Shing Holdings Company Ltd., a privately held corporation, owns more than 10% of the stock of Global-Tech Advanced Innovations Inc.

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TABLE OF CITED AUTHORITIES

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OPINIONS BELOW

The opinion of the Court of Appeals for the Federal Circuit (Pet. App. 1a-41a) is reported at 594 F.3d 1360. The order denying the petition for rehearing en banc (Pet. App. 71a-72a) is not officially reported, but is available at 2010 U.S. App. LEXIS 7937. The opinion of the district court (Pet. App. 42a-70a) is not officially reported, but is available at 2007 U.S. Dist. LEXIS 80394.

JURISDICTION

The Federal Circuit entered its judgment on February 5, 2010. Petitioners filed a timely petition for rehearing en banc on March 2, 2010, which the Federal Circuit denied on March 25, 2010. Petitioners filed a timely petition for a writ of certiorari on June 23, 2010. This Court granted the petition on October 12, 2010. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The relevant portions of the Patent Act, 35 U.S.C. § 271(a), (b), and (c), provide:

> **Infringement of patent**
>
> (a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

STATEMENT

At the close of the evidence at trial, Pentalpha moved to dismiss SEB's claim for actively inducing infringement under § 271(b) to the extent that the alleged inducement arose before Pentalpha had actual knowledge of SEB's patent. (J.A. 123a-124a) The district court denied that motion (J.A. 132a-134a), and charged the jury that it could find Pentalpha liable for actively inducing infringement if Pentalpha "knew or should have known" that its actions would induce infringement of the patent (J.A. 148a), even for the time period before Pentalpha had actual knowledge of the patent. The Federal Circuit affirmed, reasoning that "deliberate indifference" to a known risk that a patent may exist provides a sufficient basis for finding knowledge of the patent and liability for the state of mind element for actively inducing infringement under § 271(b). (Pet. App. 27a-33a)

A. Factual Background

SEB is engaged in the business of designing and manufacturing household appliances. (Pet. App. 3a) It owns United States Patent No. 4,995,312, for a specific type of deep fryer. (Pet. App. 2a-3a, 10a-16a)

Pentalpha, along with its affiliates, is also engaged in the business of designing and manufacturing household appliances. (J.A. 18a) Pentalpha holds United States patents on many of its products. (J.A. 78a-87a) Before this lawsuit, Pentalpha had sold its patented food steamers to SEB. (J.A. 24a-25a)

In 1997, Sunbeam Products, Inc. ("Sunbeam") requested that Pentalpha develop and manufacture a deep fryer, and provided Pentalpha with performance specifications. (J.A. 22a-23a) At that time, Pentalpha did not make a deep fryer. (J.A. 22a) Pentalpha then purchased and studied several deep fryers on the market in Hong Kong. (J.A. 23a-24a) These included, for example, deep fryers manufactured by Delonghi, Moulinex and SEB. (J.A. 24a) All of these deep fryers had a "cool touch" feature. (J.A. 109a-110a) The SEB deep fryer lacked United States patent markings. (J.A. 28a, Pet. App. 32a) The absence of patent markings indicated to the Chief Executive of Pentalpha, John C.K. Sham, that the product was likely not patented. (J.A. 29a-31a) Using the deep fryers that it had purchased, Pentalpha selected the features to include in its own deep fryer. (J.A. 31a)

Pentalpha's deep fryer represented an improvement over SEB's deep fryer with respect to at least six functional features. (J.A. 154a-156a)

- While the SEB deep fryer had an aluminum pan, the Pentalpha deep fryer had a die cast non-stick pan which was easier to clean. (J.A. 34a-35a)

- While the SEB deep fryer had a separate handle for the basket, the Pentalpha deep fryer had an integrated handle that would not get lost. (J.A. 33a-34a)

- While the SEB deep fryer lacked ventilation holes, the Pentalpha deep fryer had ventilation holes to allow the deep fryer to cool more quickly. (J.A. 37a)

- While the SEB deep fryer had no window on its cover, the Pentalpha deep fryer had a window on its cover to allow the user to see the food while it was cooking. (J.A. 32a)

- While the SEB deep fryer had the heating element above the bottom of the pan, the Pentalpha deep fryer had the heating element below the pan to allow easier cleaning. (J.A. 37a-38a)

- While the SEB deep fryer had no space to store the power cord, the Pentalpha deep fryer had a cord storage space. (J.A. 39a)

Before selling its deep fryer, Pentalpha contacted its United States patent attorney, located in Upstate New York. (J.A. 46a-47a) That patent attorney had previously worked with Pentalpha for over one year (J.A. 48a, Ex. R, S.A. 69, J.A. 78a, 79a, 83a) and had filed 10 patent applications on behalf of Pentalpha that

later matured into patents. (Exs. R, S, T, U, V, W, X, Y, Z, and AA, S.A. 69-78, J.A. 78a-85a) Pentalpha requested that its patent attorney provide an opinion, as Mr. Sham testified, to learn whether Pentalpha's deep fryer would infringe any United States patent. (J.A. 48a) Pentalpha provided its patent attorney with the design drawings for its deep fryer. (J.A. 49a) The patent attorney did not ask Pentalpha which products it had used to develop its deep fryer. (J.A. 49a) Consistent with its usual practice, Pentalpha did not advise him of the brands of deep fryers that it had used as models. (J.A. 111a-112a)

The attorney then conducted a patent search and provided a written opinion dated August 4, 1997. (Ex. C, S.A. 17-57, J.A. 46a-47a) That opinion stated that Pentalpha's deep fryer did not infringe any United States patent.

> We have been asked to conduct a right-to-use study of the deep-fat fryer products developed by your firm, Pentalpha Enterprises, Ltd.
>
> After searching for possible relevant United States patents, we are happy to report that, in our opinion, it does not appear that the deep-fat fryers infringe any enforceable United States patent uncovered in our search.

(Ex. C, S.A. 17, J.A. 46a-47a)

The patent opinion expressed confidence in its conclusion, but did not guaranty its accuracy. It continued:

> We are confident that we have obtained the closest art available, consisting of patents related to all aspects of deep-fat frying machines. It should be noted, however, that no search results can be guaranteed.

(Ex. C, S.A. 17, J.A. 46a-47a)

Mr. Sham testified that he understood after reading the opinion that Pentalpha's deep fryer did not infringe any patent. (J.A. 49a-50a) Unfortunately, the search the patent attorney performed failed to identify SEB's patent. (Ex. C, S.A. 17-57, J.A. 46a-47a)

In late August 1997, Pentalpha began selling deep fryers to Sunbeam FOB Hong Kong or China, and Sunbeam resold them in the United States. (Pet. App. 5a-6a) Mr. Sham testified that he did not intend for any of the deep fryers that were sold in the United States to infringe SEB's patent. (J.A. 89a)

On March 10, 1998, SEB sued Sunbeam in the District of New Jersey for directly infringing the patent in violation of 35 U.S.C. § 271(a). (Pet. App. 5a) As a result of that action, on or about April 9, 1998, Pentalpha learned, for the first time, of the existence of SEB's patent. (Pet. App. 30a-31a, J.A. 58a-59a, 130a-131a, 146a-147a) SEB amended its complaint to sue Pentalpha on June 10, 1998. (J.A. 145a-146a) In July 1999, the New Jersey District Court dismissed the action against Pentalpha for lack of personal jurisdiction. Contemporaneously, Sunbeam paid SEB $2 million to settle SEB's claim that Pentalpha's deep fryers, the same units at issue in the present case, directly infringed SEB's patent. (Pet. App. 6a)

B. The Proceedings in the Southern District of New York

On August 27, 1999, SEB re-filed the action against Pentalpha in the Southern District of New York. (J.A. 1a) SEB asserted a claim for direct infringement, based upon Pentalpha's sales FOB Hong Kong and China, and a claim for actively inducing infringement. (Pet. App. 22a)

The district court tried the action beginning on April 17, 2006. (J.A. 4a) At the close of the evidence on April 20, 2006, Pentalpha moved for judgment as a matter of law on certain claims, including SEB's claim that Pentalpha actively induced infringement under § 271(b) based upon Pentalpha's sales before April 9, 1998. (J.A. 123a-133a) During the argument on that motion, the district court found that Pentalpha had no actual knowledge of the patent before April 9, 1998. (Pet. App. 7a, J.A. 131a) The district court nevertheless denied Pentalpha's motion. (Pet. App. 7a-8a, J.A. 132a-134a)

During the charging conference, the district court announced that it intended to instruct the jury that it could find Pentalpha liable for inducing infringement if Pentalpha "knew or should have known" that its actions would induce actual infringement. (J.A. 134a-135a) Pentalpha objected to that charge. (J.A. 134a-135a) SEB admitted at the charging conference that there was no evidence that Pentalpha had actual knowledge of the patent before April 9, 1998. (J.A. 146a-147a) The district court nevertheless charged the jury under the "knew or should have known" standard. (J.A. 148a)

On April 21, 2006, the jury found that (i) Pentalpha had directly infringed and induced infringement, (ii) SEB was entitled to a reasonable royalty of $4,650,000 on Pentalpha's sales, although the district court did not ask the jury to allocate any amount to either direct infringement or inducing infringement, and (iii) Pentalpha's infringement was willful. (J.A. 150a-152a)

The district court on October 9, 2007, denied Pentalpha's renewed motion for judgment as a matter of law. (Pet. App. 42a-70a) The district court held that constructive knowledge of the patent, without more, established the state of mind element for actively inducing infringement, and that the record contained sufficient evidence of such constructive knowledge. (Pet. App. 49a)

C. The Proceedings in the Federal Circuit

On appeal, Pentalpha argued that the district court applied an erroneous legal standard for the state of mind element of a claim for actively inducing infringement because the Federal Circuit had held in *DSU Med. Corp. v. JMS Co. Ltd.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006)(en banc), that knowledge of a patent was required to meet the state of mind element of a claim for actively inducing infringement under § 271(b). (Pet. App. 27a) Pentalpha argued that, under the proper standard, it was entitled to judgment as a matter of law on SEB's claim for actively inducing infringement prior to April 9, 1998, because Pentalpha had no actual knowledge of the patent before that date. (Pet. App. 30a)

The Federal Circuit properly held, based upon the jury's answers to the special interrogatories, that it could not affirm the district court's judgment unless there was no error with respect to both SEB's claim for direct infringement and SEB's claim for actively inducing infringement. (Pet. App. 24a) The Federal Circuit nevertheless affirmed the district court's judgment. (Pet. App. 41a)

The Federal Circuit held that Pentalpha's "deliberate indifference" to a known risk that a patent may exist satisfied both the knowledge of the patent requirement, and the state of mind element for actively inducing infringement under § 271(b). (Pet. App. 30a)

The Federal Circuit began with an analysis of its decision in *DSU*. (Pet. App. 27a) *DSU* purported to establish a specific intent standard for the state of mind element, and then stated:

> The requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.

DSU Med. Corp., 471 F.3d at 1304 (citations omitted).

The Federal Circuit nevertheless rejected the statement in *DSU* that inducement requires actual knowledge of the patent. (Pet. App. 29a-31a) The Federal Circuit stated that "inducement requires a showing of 'specific intent to encourage another's infringement.'" (Pet. App. 28a)(citation omitted). The

Federal Circuit then suggested, however, that specific intent is not a high standard, stating: "As other courts have observed, 'specific intent' in the civil context is not so narrow as to allow an accused wrongdoer to actively disregard a known risk that an element of the offense exists." (Pet. App. 29a)(citations omitted). The Federal Circuit then held that if Pentalpha did not have actual knowledge of the patent, then Pentalpha's "deliberate indifference" to a known risk that a patent may exist satisfied not only the knowledge of the patent requirement, but also the state of mind element of § 271(b). (Pet. App. 31a-32a) The Federal Circuit did not address how "deliberate indifference" to a known risk that a patent may exist creates knowledge of the infringement.

Pentalpha filed a petition for rehearing en banc, which the Federal Circuit denied. (Pet. App. 71a-72a)

SUMMARY OF THE ARGUMENT

1. This Court's decision in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005), the structure of § 271, and the legislative history of § 271(b) demonstrate that a claim for actively inducing infringement requires "purposeful, culpable expression and conduct" to encourage an infringement.

In *Grokster*, the Court stated that actively inducing patent infringement requires an "affirmative intent that the product be used to infringe," *id.* at 936, a standard that we understand is the same as "purposeful, culpable expression and conduct" to encourage an infringement. *Id.* at 937. In addition, the Court relied upon that patent

law standard to hold that a party could be liable for inducing copyright infringement if it engaged in "purposeful, culpable expression and conduct" to encourage an infringement. *Id.*

Holding that the state of mind element of § 271(b) involves a standard less than "purposeful, culpable expression or conduct" to encourage an infringement would render § 271(c) insignificant. While § 271(c) specifically covers the sale of components of patented machines, § 271(b) is broad enough to cover the sale of these components as well. Section 271(c) has a high standard for the state of mind element. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964)("*Aro II*")(The state of mind element for "§ 271(c) does require a showing that the alleged contributory infringer knew that the combination for which his component was especially designed was both patented and infringing.")(footnote omitted). In addition, § 271(c) imposes three additional requirements: a sale in the "United States," of a "material" portion of an invention, that is not a "staple" article of commerce. Unless this Court imposes a higher state of mind standard under § 271(b) than the state of mind standard under § 271(c), § 271(c) will become insignificant. A standard under § 271(b) of "purposeful, culpable expression and conduct" to encourage an infringement is necessary to avoid this result.

The legislative history of the Patent Act demonstrates that § 271(b) requires "purposeful, culpable expression and conduct" to encourage an infringement. In enacting § 271(b), Congress intended to impose liability for morally culpable conduct. S. Rep.

No. 82-1979 at 28 (1952). A standard lower than "purposeful, culpable expression and conduct" to encourage an infringement would be inconsistent with that Congressional intent.

The absence of any requirement that the active inducement cause the direct infringement confirms that Congress intended to establish a high standard for the state of mind element for § 271(b). The basis for imposing liability for inducement, even when the inducement did not cause the direct infringement, is that the accused inducer engaged in morally culpable conduct. "Purposeful, culpable expression and conduct" to encourage an infringement meets that standard.

Similarly, the presumption against extraterritoriality confirms that Congress intended to establish a high standard for the state of mind element. As in this case, many § 271(b) cases involve foreign defendants whose goods are sold outside the United States and imported into the United States by the purchaser. The Court should generally presume that Congress did not intend to regulate those sales on foreign soil. However, when such regulation is necessary, the Court should presume that Congress did not intend to regulate sales on foreign soil beyond those necessary to further important United States interests. Regulating "purposeful, culpable expression and conduct" to encourage an infringement represents a more important United States interest than regulating foreign conduct based upon a lesser state of mind standard.

II. The Federal Circuit erred in holding that "deliberate indifference" to a known risk that a patent may exist can satisfy both the knowledge of the patent requirement and the state of mind element for actively inducing infringement under § 271(b). That "deliberate indifference" standard is below the standards of (i) "purposeful, culpable expression and conduct" to encourage an infringement, (ii) knowledge that an infringement will result, (iii) recklessness, and (iv) negligence.

Imposing liability for "deliberate indifference" would be inconsistent with *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). *Sony* held that, under the Copyright Act, the Court would not impose liability on a VCR manufacturer for inducing infringement based upon the infringing potential of the product at the time of its sale. *Id.* at 439. Here, Pentalpha faced that same infringing potential because, *inter alia*, it did not know of the patent at the relevant time. (Pet. App. 30a, J.A. 58a-59a, 130a-131a, 146a-147a)

Interpreting § 271(b) to require only a "deliberate indifference" to a known risk that a patent may exist would create unnecessary uncertainty in the patent law. A jury could find "deliberate indifference" in virtually any situation where the accused inducer lacked actual knowledge of the patent. That risk could deter companies from developing new products for the United States market. If, however, § 271(b) requires "purposeful, culpable expression and conduct" to encourage an infringement, then foreign sellers and component suppliers may rely upon their good faith in selling their products, rather than risk that a jury might

find that their conduct constituted a "deliberate indifference" to a known risk that a patent may exist.

III. If the Court finds that the proper standard is "purposeful, culpable expression and conduct" to encourage an infringement, then the Court should reverse and remand because the district court erred in denying Pentalpha's motion for judgment as a matter of law on SEB's claim for actively inducing infringement for sales before Pentalpha had actual knowledge of the patent. *A fortiori* an accused inducer cannot engage in "purposeful, culpable expression and conduct" without actual knowledge of the patent. The Court should reach the same result if it applies a standard that requires knowledge that some infringement will occur. Even if the Court holds that the proper standard is a form of recklessness, the Court should still reverse and remand because the evidence would not allow a finding of recklessness, and because the district court charged the jury only under a negligence standard.

ARGUMENT

I.

GROKSTER, THE STRUCTURE OF § 271, AND ITS LEGISLATIVE HISTORY DEMONSTRATE THAT ACTIVELY INDUCING INFRINGEMENT SHOULD REQUIRE "PURPOSEFUL, CULPABLE EXPRESSION AND CONDUCT" TO ENCOURAGE AN INFRINGEMENT

35 U.S.C. § 271(b) provides:

> "Whoever actively induces infringement of a patent shall be liable as an infringer."

This Court taught in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), that § 271(b) has a state of mind element. *Grokster* cited with approval *Oak Industries, Inc. v. Zenith Electronics Corp.*, 697 F. Supp. 988, 992 (N.D. Ill. 1988), for the proposition that active inducement requires "an affirmative intent that the product be used to infringe," and *Water Technologies Corp. v. Calco, Ltd.*, 850 F. 2d 660, 668 (Fed. Cir. 1988), for the proposition that inducement under § 271(b) occurs "where one 'actively and knowingly aid[s] and abet[s] another's direct infringement.'" *Grokster*, 545 U.S. at 936 (footnote omitted)(emphasis deleted). The present case should require the Court to determine the standard for the state of mind element under § 271(b).

A. *Grokster* Teaches That The Standard For The State of Mind Element Of § 271(b) Is "Purposeful, Culpable Expression And Conduct" To Encourage An Infringement.

In *Grokster*, this Court considered whether a distributor of software with significant noninfringing uses should be liable for inducing copyright infringement if the distributor intentionally designed and marketed its software for an infringing purpose. In reaching its decision, this Court relied upon the premise that the state of mind element for actively inducing patent infringement under 35 U.S.C. § 271(b) requires an unlawful purpose, stating:

> The rule on inducement of infringement as developed in the early cases is no different today. Evidence of "active steps...taken to encourage direct infringement," *Oak Industries, Inc. v. Zenith Electronics Corp.*, 697 F. Supp. 988, 992 (ND Ill. 1988), such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use, see, *e.g.*, *Water Technologies Corp. v. Calco, Ltd.*, 850 F. 2d 660, 668 (CA Fed. 1988) (liability for inducement where one "actively and knowingly aid[s] and abet[s] another's direct infringement"). . .

Grokster, 545 U.S. at 936 (footnote omitted)(emphasis deleted).

In addition to *Oak Industries* and *Water Technologies*, this Court in *Grokster* cited with approval two other lower court patent cases that held that § 271(b) requires a purpose to achieve an unlawful objective. *Grokster*, 545 U.S. at 936 (citing *Haworth, Inc. v. Herman Miller, Inc.*, 1994 WL 875931 at *10 (W.D. Mich. Oct. 24, 1994)("To make its case for active inducement to infringe, [plaintiff] has a burden of production to show...that [the defendant] purposely caused, urged or encouraged that third party to infringe, with the knowledge that he or she would infringe."), and *Sims v. Mack Trucks, Inc.*, 459 F. Supp. 1198, 1217 (E.D. Pa. 1978), rev'd on other grounds, 602 F.2d 87 (3d Cir. 1979)(Defendant's efforts "deliberately rather than accidentally caused infringement[] of [the patent] and were made with knowledge that infringement was likely.")(citation omitted)).

Grokster also taught that the same rule for inducement should apply in both the copyright law and in the patent law, and that the rule should focus on whether the defendant sought to achieve an unlawful purpose. This Court continued:

> For the same reasons that *Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third

> parties....**The inducement rule, instead, premises liability on purposeful, culpable expression and conduct**, and thus does nothing to compromise legitimate commerce or to discourage innovation having a lawful promise.

Id. at 936-37 (citations omitted)(emphasis added). *See also Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984)("We have consistently rejected the proposition that a similar kinship exists between copyright law and trademark law, and in the process of doing so have recognized the basic similarities between copyrights and patents.").

Grokster therefore demonstrates that this Court endorsed a standard for the state of mind element for § 271(b) that requires an unlawful purpose.

B. A Standard Less Than "Purposeful, Culpable Expression and Conduct" To Encourage An Infringement Would Make § 271(b) So Broad That It Would Render § 271(c) Insignificant.

While § 271(c) specifically applies to sales of components of patented machines, § 271(b) is broad enough to apply to those sales as well. This Court stated in *Grokster* that a component seller could be liable under § 271(b). *Grokster*, 545 U.S. at 935 n.10 ("Nor does the Patent Act's exemption from liability for those who distribute a staple article of commerce, 35 U.S.C. § 271(c), extend to those who induce patent infringement, § 271(b).").

Section 271(c) "require[s] a showing that the alleged contributory infringer knew that the combination for

which his component was especially designed was both patented and infringing." *Aro II*, 377 U.S. at 488 (footnote omitted). This state of mind standard, however, falls short of requiring a purpose to encourage an unlawful act, because the accused contributory infringer could be found liable under § 271(c) even if acting with the purpose to sell the component only for a noninfringing, but limited, use.

In addition to a state of mind element, § 271(c) has three additional elements:

> (c) Whoever offers to sell or sells [i] *within the United States* or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a [ii] *material part of the invention*, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and [iii] *not a staple article* or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer. (emphasis added).

If this Court applies a standard for the state of mind element of § 271(b) that is less than "purposeful, culpable expression and conduct" to encourage an infringement, then § 271(b) will render § 271(c) insignificant. If the Court applies a lower standard, an accused inducer could violate § 271(b) with the same or a lower state of mind than § 271(c) requires under *Aro II*, but without proving any of the additional elements of

§ 271(c). Thus, in a broad range of fact patterns, a component seller would be liable under § 271(b) when the component seller would not be liable under § 271(c). Because § 271(c) specifically addresses the sale of components, Congress would not have intended such an anomalous result.

The only colorable escape from that result would be an argument that § 271(b) requires conduct beyond the sale of a component. Given the breadth of the word "induces" in § 271(b), that interpretation is dubious. When Congress enacted § 271(b), the preferred definitions of "induce" were: "1. To lead on; to influence; to prevail on; to move by persuasion or influence. 2. Obs. (a) To lead or bring in; introduce; adduce. (b) To instruct; initiate; also, to accustom. (c) To lead to as a conclusion; imply. (d) To draw on; overspread." Webster's New International Dictionary of the English Language, 2nd ed. (1952). Under this definition, there is no reason why the sale of a product would not meet the conduct requirement of the statute. *See generally Wing Shing Prods. (BVI) Ltd. v. Simatelex Manufactory Co.*, 479 F.Supp. 2d 388, 411 (S.D.N.Y. 2007)("[T]he production and sale of an infringing product knowing that the buyer will sell the product in the United States fit comfortably within this expanded definition of inducement as 'encouragement' or 'aiding and abetting'.... Finding no authority for limiting the application of § 271(b), the Court holds that the manufacture and sale of a patented product are by themselves sufficient to constitute active inducement under § 271(b)."). In any event, most cases would involve additional circumstances beyond a sale.

The Court should not adopt an interpretation of § 271(b) that would render § 271(c) insignificant. *See, e.g. Corley v. United States*, 556 U.S. ___, ___, 129 S. Ct. 1558, 1566, 173 L. Ed. 2d 443, 454 (2009)("[A] statute should be construed so that effect is given to all its provisions, so that no part will be inoperative or superfluous, void or insignificant....")(quoting *Hibbs v. Winn*, 542 U.S. 88, 101 (2004)). *See also Bilski v. Kappos*, 561 U.S. ___, ___, 130 S. Ct. 3218, 3228, 177 L. Ed. 2d 792, 804-05 (2010)("A conclusion that business methods are not patentable in any circumstances would render § 273 meaningless. This would violate the canon against interpreting any statutory provision in a manner that would render another provision superfluous.") (citation omitted).

C. The Legislative History Of The Patent Act Demonstrates That Congress Intended § 271(b) To Require Morally Culpable Conduct, Consistent With The "Purposeful, Culpable" Standard.

The Senate Report for the final version of the Patent Act provides:

> *Paragraphs (b), (c) and (d) relate to the subject referred to as contributory infringement.* The doctrine of contributory infringement has been part of our law for about 80 years. It has been applied to enjoin those who sought to cause infringement by supplying someone else with the means and direction for infringing a patent. One who makes a special device constituting the heart of a patented machine and supplies

> it to others with directions (specific or implied) to complete the machine is obviously appropriating the benefit of the patented invention. *It is for this reason that the doctrine of contributory infringement, which prevents appropriating another man's patented invention, has been characterized as "an expression both of law and morals."*

S. Rep. No. 82-1979 at 28 (1952)(emphasis added). *See generally Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 677 (1944)(Frankfurter, J. dissenting)("So understood, the doctrine of contributory infringement is an expression both of law and morals."). "Purposeful, culpable expression and conduct" involves the morally culpable conduct that Congress sought to prohibit in § 271(b).

D. Two Policy Considerations Confirm That "Purposeful, Culpable Expression And Conduct" To Encourage An Infringement Is The Appropriate Standard.

1. The Imposition Of Liability Under § 271(b) Without Any Requirement That The Inducement Cause The Direct Infringement Suggests That Congress Intended To Impose A High State Of Mind Standard.

Normally, civil liability results only from acts that cause damage. *Exxon Co., U.S.A. v. Sofec, Inc.*, 517 U.S. 830, 842 (1996)("A party whose fault did not proximately cause the injury is not liable at all.").

Section 271(b) deviates from that norm. It creates liability for conduct that does not cause any infringement. Section 271(b) uses the word "induces," not "causes." The Senate Report, quoted in the prior section, demonstrates that Congress sought to prohibit conduct that "sought to cause" an infringement, S. Rep. No. 82-1979 at 28 (1952), even if the infringement would have occurred without the inducement. Indeed, *Grokster* imposed no requirement under the Copyright Act that the inducement cause the direct infringement.

The justification for imposing civil liability for conduct without proof that the accused inducer caused any damage rests in the goal of providing retribution, a goal of the criminal law. *See, e.g.* Mark Bartholomew, *Cops, Robbers, and Search Engines: The Questionable Role of Criminal Law in Contributory Infringement Doctrine*, 2009 B.Y.U.L.Rev. 783, 842 (2009)("As articulated by the Supreme Court in its *Grokster* opinion, the inducement analysis does not rely on the consequences of infringing behavior. Instead, as with criminal accomplice liability, liability for inducement infringement punishes people for their outward expressions of commitment to unworthy values.")(footnote omitted). Thus, actively inducing patent infringement should result in liability only when the accused inducer engages in morally culpable conduct. "Purposeful, culpable expression and conduct" to encourage an infringement meets that standard.

2. The Presumption Against Extraterritoriality Suggests That Congress Intended To Impose A High State Of Mind Standard.

Cases involving § 271(b) claims against foreign companies selling products outside of the United States raise an issue concerning the extraterritorial application of the patent law. *See, e.g. DSU Med. Corp. v. JMS Co. Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006)(en banc); *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369 (Fed. Cir. 2005), cert. denied, 552 U.S. 1243 (2008); *Instituform Tech., Inc. v. Cat Contracting, Inc.*, 161 F.3d 688 (Fed. Cir. 1998), cert. denied, 526 U.S. 1018 (1999); *Wing Shing Prods. (BVI) Ltd. v. Simatelex Manufactory Co. Ltd.*, 479 F. Supp. 2d 388 (S.D.N.Y. 2007).

In cases involving the extraterritorial application of United States patent law, this Court has presumed that Congress did not intend to regulate conduct in a foreign country. In *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), this Court held that Microsoft's shipment of software to China for the making of copies did not infringe a patent of AT&T, stating:

> Any doubt that Microsoft's conduct falls outside § 271(f)'s compass would be resolved by the presumption against extraterritoriality, on which we have already touched. The presumption that United States law governs domestically but does not rule the world applies with particular force in patent law.

Microsoft Corp., 550 U.S. at 454-55 (citation omitted). *See also Morrison v. Nat'l Austl. Bank*, ___U.S. ___,

130 S. Ct. 2869, 2877-78, 177 L. Ed. 2d 535, 547 (2010)("It is a longstanding principle of American law that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States....When a statute gives no clear indication of an extraterritorial application, it has none.") (citation omitted)(internal quotation marks omitted).

A corollary of that presumption against extraterritoriality should be that when Congress intends to regulate conduct in a foreign country, Congress intends to do so to the least extent necessary to further important United States interests. *See generally F. Hoffman-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155, 164 (2004)("[T]his Court ordinarily construes ambiguous statutes to avoid unreasonable interference with the sovereign authority of other nations.")(citations omitted).

Applying a standard less than "purposeful, culpable expression and conduct" for the state of mind element of § 271(b) would regulate conduct in foreign countries beyond what is necessary to further any important United States interest. Restricting liability to those accused inducers acting with a purpose to accomplish an unlawful objective will not deprive the patentee of a remedy. As in this case, the patentee has the opportunity to recover its entire damages from the direct infringer located in the United States. The patentee also has the opportunity to obtain and enforce a patent under the laws of the country in which the accused inducer sells the product. The Court should not expand liability under § 271(b) to regulate foreign defendants acting without the purpose to violate United States law, and acting

consistently with the laws of the country in which they are located.

Accordingly, the standard for the state of mind element of a claim for actively inducing infringement under § 271(b) should be that the accused inducer engage in "purposeful, culpable expression and conduct" to encourage an infringement. *A fortiori*, because one cannot have a purpose to infringe a patent of which one is unaware, this state of mind standard necessarily requires that the accused inducer have actual knowledge of the patent.

II.

THE FEDERAL CIRCUIT'S "DELIBERATE INDIFFERENCE" STANDARD IS INCONSISTENT WITH *SONY*, THE LANGUAGE OF § 271(B), AND THE POLICIES OF ENCOURAGING COMPETITION AND INNOVATION

The Federal Circuit's "deliberate indifference" standard is lower than the "purposeful, culpable expression and conduct" to encourage an infringement standard that this Court articulated in *Grokster*, and lower than a standard requiring knowledge that the sales of the product will result in some infringement.

The Federal Circuit's "deliberate indifference" standard is also lower than a recklessness standard. Although the Federal Circuit cited *Farmer v. Brennan*, 511 U.S. 825 (1994), the Federal Circuit's opinion articulated the standard as "deliberate indifference" to a known risk that a patent may exist. (Pet. App. 31a)

While the Federal Circuit described the nature of that risk as "known" (Pet. App. 31a) or "overt" (Pet. App. 29a), it did not qualify the degree of risk to which the accused inducer must be "deliberately indifferent." However, a "known" risk or an "overt" risk may be a minimal risk. A minimal risk is inconsistent with a recklessness standard. This Court has previously held that "[t]he civil law generally calls a person reckless who acts or (if the person has a duty to act) fails to act in the face of an unjustifiably high risk of harm that is either known or so obvious that it should be known." *Farmer*, 511 U.S. at 836 (citations omitted). Furthermore, "recklessness requires 'a known or obvious risk that was so great as to make it highly probable that harm would follow.'" *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 69 (2007)(citation omitted). Without qualifying the degree of risk as "unjustifiably high," one cannot conclude that the Federal Circuit adopted a recklessness standard.

The Federal Circuit's "deliberate indifference" standard requires even less culpability than a negligence standard. "Deliberate indifference" does not require proof that a reasonable person would not have engaged in the conduct found to infringe. The Federal Circuit even acknowledged that the "deliberate indifference" standard is different than a negligence standard, stating "'deliberate indifference' is not necessarily a 'should have known' standard. The latter implies a solely objective test, whereas the former may require a subjective determination that the defendant knew of and disregarded the overt risk that an element of the offense existed." (Pet. App. 29a)(citations omitted).

A. A "Deliberate Indifference" Standard Is Inconsistent With *Sony*.

In *Sony*, the Court held that the Copyright Act did not impose liability on the manufacturer of a VCR even though that manufacturer understood the potential that the purchaser of the VCR would use it to infringe. *Sony*, 464 U.S. at 456. *Grokster* stated "just as *Sony* did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability." *Grokster*, 545 U.S. at 937 (citing *Sony*, 464 U.S. at 439 n.19). Thus, *Sony* refused to impose liability for inducement based upon the potential that the sale of a product would result in direct infringement by the purchaser.

This case involves the same uncertainty as in *Sony* as to whether a direct infringement would occur, but an uncertainty that resulted from different circumstances. In the *Sony* copyright context, the uncertainty as to whether a direct infringement would occur resulted from the fact that the VCR manufacturer did not know how purchasers would use the VCR. The making of certain copies would be fair use, while others would not. *Sony*, 464 U.S. at 442.

In the present patent context, the uncertainty as to whether a direct infringement would occur resulted from two sources. First, Pentalpha faced uncertainty concerning the infringing potential of its deep fryer because it did not know of the SEB patent during the relevant period. (J.A. 146a-147a) While Pentalpha could

have known of some possibility that its deep fryer would infringe some patent that it had not identified when it first sold its deep fryer in August 1997, Pentalpha did not know about the SEB patent until April 9, 1998. (Pet. App. 30a-31a, J.A. 58a-59a, 130a-131a, 146a-147a)

Second, hypothetically, if Pentalpha had known about the SEB patent before April 9, 1998, Pentalpha would still have faced uncertainty as to whether its deep fryer would infringe that patent. That uncertainty stems from two unique aspects of patent litigation: claim construction and the factual nature of patent infringement.

Initially, patent infringement analysis requires a construction of the claims of the patent. Claim construction frequently remains unresolved "until three court of appeals judges randomly selected for that purpose pick the 'right' interpretation... [then] the public, not to mention the patentee and its competitors, know what the patent actually claims." *Enzo Biochem, Inc. v. Applera Corp.*, 605 F3d 1347, 1348 (Fed. Cir. 2010) (Plager, J., dissenting from denial of rehearing en banc).

The construction of the claim limitation "completely free" in this litigation provides a textbook example of the uncertainty businesses face in determining whether a product infringes a patent. Claim 1 of SEB's patent contained the limitation that "said skirt (3) being completely free with respect to the pan (1) with the exception of a ring (5)." (Pet. App. 11a) The district court construed that claim to mean "there are no thermal bridges between the skirt and the pan." (Pet. App. 10a) The Federal Circuit recognized that the district court's

claim construction created an inconsistency, because the ring is not a thermal bridge. (Pet. App. 11a) So, as the district court construed it, the claim limitation meant "said skirt (3) being completely free of thermal bridges with respect to the pan except for the ring, which is not a thermal bridge." Thus, faced with an ambiguous patent claim, the Federal Circuit accepted the construction of the district court, and characterized the discordant language of its construction as a "minor inconsistency." (Pet. App. 11a)

The Federal Circuit then addressed the more difficult fact that, to distinguish its deep fryer from the prior art, SEB represented to the Patent Examiner during prosecution that in its deep fryer "the space comprised between the skirt 3 and the pan 1 is entirely occupied by air and that there is no solid material therebetween." (Pet. App. 14a) Pentalpha's accused deep fryers had "solid material" between the pan and the skirt, specifically a metal screw connecting the bottom of the pan and the top of the skirt. (Pet. App. 10a) The Federal Circuit construed SEB's representation to the Patent Examiner to mean "no solid material between *the sides of* the pan and *the sides of* the skirt." (Pet. App. 15a)

Thus, the Federal Circuit "construed" the claim language "said skirt (3) being completely free with respect to the pan (1) with the exception of a ring (5)" to mean "no solid material between *the sides of* the pan and *the sides of* the skirt and *no thermal bridges* between the base of the skirt and the base of the pan." (Pet. App. 11a, 15a-16a)

This experience is not atypical, as claim construction is fraught with uncertainty. Between April 5, 1995 and

November 24, 1997, the Federal Circuit overturned on appeal almost 40 percent of all patent claim constructions of federal courts. *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448, 1476 n.16 (Fed. Cir. 1998)(en banc)(Rader, J., dissenting in part). A business that is not directly infringing a patent should not be required to predict the outcome of a claim construction process that is this unpredictable.

As this case further demonstrates, even if claim interpretation were settled, a jury must determine as a matter of fact whether the accused product infringes the claim of the patent even if there is no factual dispute as to the physical composition of the accused product. (J.A. 150a) Until the jury makes that factual determination, no one knows whether the accused product infringes. Despite this uncertainty, § 271(b) would still apply to situations in which, as in *Grokster*, the defendants purposefully engaged in conduct to achieve an unlawful objective. *Grokster*, 545 U.S. at 937-941.

Accordingly, just as the potential for infringement did not result in secondary liability for the VCR manufacturer in *Sony*, the potential for infringement in this case should not result in secondary liability for Pentalpha.

B. A "Deliberate Indifference" Standard Is Inconsistent With The Term "Actively Induces" In § 271(b).

The language of § 271(b) appears to create liability for one who aids and abets an infringement. *Water Technologies Corp. v. Calco, Ltd.*, 850 F. 2d 660, 668 (Fed. Cir. 1988)("The patent statute provides that 'whoever

actively induces infringement of a patent shall be liable as an infringer.' 35 U.S.C. § 271(b)(1982). Thus, a person infringes by actively and *knowingly* aiding and abetting another's direct infringement.")(quoted with approval in *Grokster*, 545 U.S. at 936). *See also* S. Rep. No. 82-1979 at 8 (1952)("One who actively induces infringement as by aiding and abetting the same is liable as an infringer..."). "Aiding and abetting" generally requires knowledge of the actor's participation in an underlying crime or tort. *See Central Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A.*, 511 U.S. 164, 181 (1994)(superceded by statute, Private Securities Litigation Reform Act of 1995, Pub. L. No. 104-67, 109 Stat. 737)(Aiding and abetting requires "knowing aid to persons" violating the law, "with the intent to facilitate" the violation)(citing *Nye & Nissen v. United States*, 336 U.S. 613, 619 (1949)). That "aiding and abetting" standard is inconsistent with a standard of "deliberate indifference" to a known risk that a patent may exist.

If the meaning of "actively induces" is different than "aids and abets," then the meaning of "actively induces" is more exacting. Section 271(b) contains three key words: "actively," "induces," and "infringement." "Induce" is a somewhat narrower word than either "aid" or "abet." Induce is defined as: "1. To lead on; to influence; to prevail on; to move by persuasion or influence. 2. Obs. (a) Te lead or bring in; introduce; adduce. (b) To instruct; initiate; also, to accustom. (c) To lead to as a conclusion; imply. (d) To draw on; overspread. 3. To bring about; to effect; cause; as, a fever induced by fatigue of exposure." "Aid" is defined as: "To lend assistance; to avail or be of use; to help; assist."

"Abet" is defined as: "To incite, encourage, instigate, or countenance; now used chiefly in a bad or disparaging sense; as, to abet the commission of a crime." Webster's New International Dictionary of the English Language, 2nd ed. (1952). Congress further narrowed "induces" by adding to the text of § 271(b) the adverb "actively." Given that adverb, "actively induces" is more exacting than "aids and abets." The selection of "actively induces" therefore suggests that Congress may have intended § 271(b) to require even more culpability than "aids and abets."

The statute's use of the word "infringement" suggests that the accused inducer must intend to induce an infringement, not simply the acts that constitute the infringement. Section 271(b) does not restate the acts described in § 271(a) that constitute direct infringement, and therefore does not provide "Whoever actively induces another *to make, use, or sell any patented invention* shall be liable as an infringer." Accordingly, the words that Congress selected demonstrate that it intended the standard for the state of mind element of § 271(b) to involve much more than a "deliberate indifference" to a known risk that a patent may exist.

C. A "Deliberate Indifference" Standard Is Inconsistent With The Policies Of Promoting Competition And Innovation.

A jury could find that an accused inducer acted with "deliberate indifference" in virtually any situation in which the accused inducer lacked knowledge of the relevant patent. For example:

- If the accused inducer did not conduct a patent search, the jury could find that the accused inducer acted with "deliberate indifference" to a known risk that a patent search would have revealed an applicable patent.

- If the accused inducer conducted a patent search, but did not obtain an opinion of counsel, the jury could find that the accused inducer acted with "deliberate indifference" to a known risk that an opinion of counsel would have identified a problem with the search, and revealed the applicable patent.

- If the accused inducer retained counsel to provide a right to use opinion, the jury could find that the accused inducer acted with "deliberate indifference" to a known risk, potentially disclosed in opinions of counsel, that the search did not identify the relevant patent.

Needless to say, the "deliberate indifference" standard would therefore create uncertainty among companies seeking to comply with their obligations under the Patent Act.

That uncertainty resulting from a "deliberate indifference" standard would have a substantial, and harmful, impact upon competition and innovation. "In the area of patents, it is especially important that the law remain stable and clear." *Bilski v. Kappos*, 561 U.S. __, __, 130 S. Ct. 3218, 3231, 177 L. Ed. 2d 792, 808 (2010)(Stevens, J., concurring). Without a clear rule concerning the standard for actively inducing

infringement, companies selling products that they know will be imported into the United States, and companies selling components that they know will be incorporated into finished products sold in the United States, will have to decide, for each product or component they sell, whether or not to commission a full and complete patent search. Regardless of what they decide, those companies may soon conclude that the burdens and risks of developing and selling new products in the United States outweigh the potential reward of doing so. If that occurs, competition, and ultimately innovation, will suffer.

III.

IF THE COURT HOLDS THAT § 271(B) REQUIRES EITHER "PURPOSEFUL, CULPABLE" CONDUCT, KNOWLEDGE OF SOME RESULTING INFRINGEMENT, OR RECKLESSNESS, THE COURT SHOULD REVERSE AND REMAND

If this Court holds that the state of mind element of § 271(b) requires "purposeful, culpable expression and conduct" to encourage an infringement, then the Court should vacate the judgment and remand for further proceedings. Before April 9, 1998, Pentalpha had no actual knowledge of the patent (Pet. App. 30a-31a, J.A. 58a-59a, 130a-131a, 146a-147a), and *a fortiori* could not have acted with the "purposeful, culpable expression and conduct" to encourage an infringement. Because the jury's verdict may have imposed liability for actively inducing infringement for Pentalpha's sales prior to April 9, 1998 (Pet. App. 24a, J.A. 150a-152a), and because

this liability cannot be separated from the total damages awarded (Pet. App. 24a), a new trial is necessary. *See, e.g. Gasoline Products Co., Inc. v. Champlin Refining Co.*, 283 U.S. 494, 500 (1931).

If this Court holds that the state of mind element of § 271(b) requires knowledge that some infringement will result from an alleged inducer's actions, then the same analysis should apply. If an accused infringer has no actual knowledge of the patent, then *a fortiori* the accused infringer cannot have acted with knowledge that some infringement will result.

If this Court holds that the state of mind element of § 271(b) requires recklessness, then this Court should still vacate the judgment and remand for further proceedings. The evidence will not support a finding of recklessness. Moreover, the jury did not find liability under a recklessness standard. (J.A. 148a) To the contrary, the jury found liability based upon a negligence standard, whether Pentalpha "knew or should have known" that an infringement would result from its sale of the deep fryer. (J.A. 148a)

The only road to an affirmance involves holding that a failure to identify the patent, based upon negligence or some lesser standard, satisfies the state of mind element for actively inducing infringement under § 271(b). The need for a standard requiring a purpose to accomplish an unlawful objective, however, should compel the Court to leave that road untraveled.

CONCLUSION

For the reasons set forth above, this Court should reverse the judgment of the Federal Circuit and remand the action to the district court for further proceedings.

Dated: November 29, 2010

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RESPONDENT'S BRIEF

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In The
Supreme Court of the United States

GLOBAL-TECH APPLIANCES INC. and
PENTALPHA ENTERPRISES, LTD.,

Petitioners,

v.

SEB S.A.,

Respondent.

**On Writ Of Certiorari To The
United States Court Of Appeals
For The Federal Circuit**

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(152)

QUESTION PRESENTED

Whether lack of knowledge of a specific patent—where one company has deliberately copied the commercial product of another company and has remained willfully blind to whether the copied product is protected by a patent—is an absolute bar to liability for inducing infringement under 35 U.S.C. § 271(b).

RULE 29.6 DISCLOSURE STATEMENT

Respondent, SEB S.A., a publicly held French corporation, has no parent company. No publicly owned company owns 10 percent or more of the stock of SEB S.A.

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STATEMENT

This case presents a straightforward application of the text of 35 U.S.C. § 271(b), which provides that one who "actively induces infringement of a patent shall be liable as an infringer." Petitioner Pentalpha purchased SEB's commercially successful deep fryer on the streets of Hong Kong, disassembled and reverse engineered it, deliberately copied SEB's entire product, and then sold hundreds of thousands of the copied products to U.S. retailers and distributors for resale in the United States. Pentalpha's sole argument on appeal is that, despite its highly culpable conduct, the fact that it deliberately avoided learning of the specific patent protecting SEB's product should somehow immunize it from liability for inducing the widespread infringement of SEB's patent. That claim finds no basis in the statute.

1. SEB S.A. designs, manufactures, and sells consumer appliances to national retailers throughout the United States through its affiliate, T-Fal Corporation. R.A. 46-47.[1] SEB manufactures its own products and does not license others to use its inventions. *Id.* at 51-52.

In the late 1980s, SEB recognized the need for a new type of deep fryer for home use. *Id.* at 47. At that time, deep fryers were made of metal, which was necessary to withstand the extremely high cooking

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[1] The Joint Appendix will be cited as "J.A. ___"; the Supplemental Appendix as "S.A. ___"; and the appendix to this brief as "R.A. ___."

temperatures. *Ibid.* The hot metal housings, however, could cause burns if touched. One solution was to form an outer covering from a plastic material that could withstand extreme temperatures, but those materials were prohibitively expensive for household use. Pet. App. 3a.

SEB's engineers and designers solved the problem by inventing a new design for a deep fryer. R.A. 60. SEB's new fryers contained a metal frying pan surrounded by an outer covering, or "skirt" made from ordinary, less expensive plastic that was not heat resistant. *Ibid.* The metal pan was suspended from a ring made of heat-resistant plastic which, in turn, was attached to the top of the plastic skirt. *Ibid.* The ring insulated the outer skirt from heat by eliminating contact, and creating an air space, between the metal pan and the outer skirt, which permitted the use of less expensive plastic for the outer skirt, and required the use of more expensive heat-resistant plastics only for the ring. *Ibid.* SEB's invention was referred to as a "cool-touch" feature because the user could touch the fryer while using it without being burned.

Because SEB markets and sells its products in the United States, it filed for, and obtained, a U.S. patent for the invention. U.S. Patent No. 4,995,312 (filed Aug. 28, 1990) ("the '312 patent"). SEB soon began producing and selling the cool-touch fryers, which were enormously successful. R.A. 49. The fryers were sold under SEB's T-Fal brand in stores such as Wal-Mart, K-mart, Target, Bed Bath & Beyond, and Linens 'n Things. *Id.* at 48. SEB's fryers

were safer than those previously available for sale in the U.S. market—and no other company offered any competing cool-touch fryer. *Id.* at 49-50, 53.

2. Global-Tech Appliances Inc. is a holding company based in China. J.A. 18a. Global-Tech and its subsidiaries—one of which is Pentalpha Enterprises, Ltd.—manufacture and sell household appliances. *Ibid.* Pentalpha does not sell its products to consumers under its own name, but rather to U.S. companies that sell under their own trademarks. See R.A. 54, 57-58.

In 1997, Pentalpha entered into an exclusive product supply agreement with Sunbeam that included deep fryers. J.A. 7a-12a. Instead of developing its own fryer, Pentalpha went out on the streets of Hong Kong and purchased several home deep fryers, one of which was SEB's patented cool-touch fryer. J.A. 26a-27a. Because the fryers purchased in Hong Kong had been made for sale in a foreign market and not in the United States, they contained no U.S. patent markings. *Id.* at 25a-28a.

Back at Pentalpha's laboratory, its engineers disassembled SEB's fryers to figure out how the cool-touch feature worked. Pentalpha then made a few superficial changes to SEB's design and began mass-producing copies of SEB's fryer. J.A. 119a.

As the jury heard at trial, Al Lior, the former head of Pentalpha Enterprises U.S., admitted the following:

> Q When you say it is a T-Fal unit, what do you mean?
>
> A They actually took a T-Fal unit and *changed the cosmetic design and just copied the features of the unit*.

J.A. 118a (emphasis added).

Knowing that its buyers would be more inclined to do business with Pentalpha if the company could show them a "right-to-use" opinion stating that the fryer did not infringe a patent, Pentalpha contacted an attorney at a small firm in Binghamton, New York to conduct a patent search. R.A. 58-59; S.A. 17-37. Pentalpha deliberately chose not to tell the attorney that its fryer was a copy of SEB's fryer. J.A. 111a-112a. The attorney conducted a patent search, failed to locate SEB's patent, and issued a right-to-use opinion. S.A. 17-37.

Because Pentalpha manufactured its fryers in China, it enjoyed low labor costs and tax rates. See R.A. 56. SEB, in contrast, manufactured its fryers in Western Europe and North America, where costs and taxes were higher. *Id.* at 49-50. And, of course, Pentalpha avoided all of the research and development costs that SEB had incurred to create the cool-touch feature. That aggregate cost differential enabled Pentalpha to significantly undercut SEB

in the market. See *id.* at 52-53. As a result, SEB lost customers as they began carrying Pentalpha's cheaper version of SEB's fryer. See *id.* at 50-51.

3. Three U.S. companies purchased the infringing fryers from Pentalpha and sold them in the United States: Sunbeam, Montgomery Ward, and Fingerhut. See *id.* at 54, 56-58. As the parties stipulated, Pentalpha sold approximately 312,736 fryers to Sunbeam, 46,418 to Montgomery Ward, and 47,604 to Fingerhut. *Id.* at 63.

Pentalpha's fryers were manufactured specifically for U.S. customers, fitted with U.S. electrical plugs, built for U.S. electrical current, and made with the U.S. trademarks of the companies prominently displayed on the products and on their packaging. S.A. 5-6, 11, 14. The instruction manuals accompanying the products were in English. S.A. 7-10, 12-13, 15-16. Orders were placed in the United States and invoiced in U.S. dollars. S.A. 79-85. Documents reflected that the fryers were purchased by U.S. companies and delivered to U.S. destinations. *Ibid.* And the sales were contracted in the United States by an exclusive supply contract with Sunbeam governed by Florida law (J.A. 9a-10a), and by a vendor contract with Fingerhut in Minnesota through a U.S.-based sales representative. *Id.* at 165a-166a; S.A. 1-4. As all the evidence demonstrated, the fryers were intended to be used in the United States. R.A. 54.

4. To protect its intellectual property rights, SEB sued Sunbeam for selling the infringing fryers. *Id.* at 53-54. On or about April 9, 1998, Sunbeam notified Pentalpha of the suit and requested indemnification. J.A. 153a. Nonetheless, Pentalpha continued selling the fryers to U.S. customers.

After the lawsuit against Sunbeam settled (R.A. 54), SEB filed the instant suit against Pentalpha in the Southern District of New York. In addition, SEB requested a preliminary injunction barring the sale of Pentalpha's fryers. See Pet. App. 6a. The district court granted the preliminary injunction. *SEB S.A.* v. *Montgomery Ward & Co.*, 77 F. Supp. 2d 399 (S.D.N.Y. 1999), *aff'd*, 243 F.3d 566 (Fed. Cir. 2000).

In response to the injunction, Pentalpha made minor modifications to its fryers and then continued selling them in the United States. Pet. App. 7a. SEB was therefore forced to seek supplemental injunctive relief, which the district court granted after finding that the fryers continued to infringe SEB's patent under the doctrine of equivalents. *SEB S.A.* v. *Montgomery Ward & Co.*, 137 F. Supp. 2d 285 (S.D.N.Y. 2001). The court expressly found that "[t]his modified fryer is *virtually identical* to the enjoined fryer." *Id.* at 287 (emphasis added). The court further found that Pentalpha's actions "reflect[ed] a disregard for their affirmative duty to comply with the Court's Injunction." *Id.* at 290.

SEB's suit alleged two theories of recovery: (1) that Pentalpha directly infringed its patent under § 271(a) by offering to sell or selling the infringing fryers in the United States; and (2) that under § 271(b) Pentalpha took steps to "actively induce" Fingerhut, Montgomery Ward, and Sunbeam to infringe SEB's patent.

5. The case was tried to a jury over five days. Pentalpha did not contest the validity of SEB's patent, nor did Pentalpha offer any expert testimony to dispute that its fryers infringed SEB's patent either literally or under the doctrine of equivalents. Instead, Pentalpha relied on the testimony of its President, John Sham, and argued that it was not subject to U.S. patent laws because it sold its products "Free On Board" ("FOB") in China, and did not conduct any activities within the United States. R.A. 45, 58-59.

At trial, the jury heard Mr. Lior testify that he knew SEB was selling a deep fryer as early as 1996 (J.A. 122a), and they heard his candid admission that Pentalpha had taken an SEB fryer and "changed the cosmetic design and just copied the features of the unit." J.A. 118a.[2] Indeed, Pentalpha's own President,

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[2] Despite that explicit testimony, Pentalpha argues to this Court that it did not in fact copy SEB's invention. Pet'r Br. 3-4. That argument is baseless. "The jury heard evidence that Pentalpha purchased an SEB deep fryer in Hong Kong and copied all but the cosmetics" (Pet. App. 31a), and this Court must construe the evidence in favor of the jury's verdict against Pentalpha. See *Muehler* v. *Mena*, 544 U.S. 93, 98 n.1 (2005).

Mr. Sham, admitted that Pentalpha had "bought a[n] SEB product." J.A. 14a. When asked, "[a]nd did you take it apart?," Mr. Sham replied "[y]es." *Ibid.*

The jury also heard testimony that Pentalpha was well versed in U.S. patent law. Mr. Sham testified that in terms of obtaining U.S. patents, "[c]ompared to my competitors in Hong Kong, China, we are leading in that field." R.A. 56. Mr. Sham himself was listed as the inventor on 29 different U.S. patents, of which 11 had been issued by January 1997. J.A. 78a-86a; S.A. 59-69, 70-78.

6. The jury found for SEB on all counts. Specifically, the jury found that:

- The first version of Pentalpha's fryer literally infringed SEB's patent;
- The second version of Pentalpha's fryer infringed SEB's patent under the doctrine of equivalents;
- Pentalpha induced another to infringe SEB's patent with its first version of the fryer;
- Pentalpha induced another to infringe SEB's patent with its second version of the fryer;
- Pentalpha willfully infringed SEB's patent with its first version of the fryer;
- Pentalpha willfully infringed SEB's patent with its second version of the fryer; and that

- Based on a reasonable royalty rate, the total amount of damages Pentalpha should pay SEB was $4,650,000.

R.A. 42-44.

7. Pentalpha then filed a number of post-trial motions. See Pet. App. 44a-48a, 50a-52a, 53a-64a. As relevant here, Pentalpha argued "there was insufficient evidence that Defendants were aware of the SEB patent, and therefore they could not have induced infringement." *Id.* at 48a. The district court rejected that argument (*id.* at 49a), but did reduce the verdict by $2 million to account for the earlier settlement payment from Sunbeam to SEB. *Id.* at 52a-53a.

8. SEB moved for enhanced damages under § 284 and attorney's fees under § 285 based on the jury's finding that Pentalpha's infringement was willful. The district court's instructions on willfulness were as follows:

> Willfulness *must* be proven by clear and convincing evidence showing that, one, *Defendants had actual knowledge of the Plaintiff's patent*, and, two, Defendants had no reasonable basis for believing, A, that the deep fryers did not infringe Plaintiff's patent, or, B, that the Plaintiff's patent was invalid.
>
> In making the determination as to willfulness, you must consider the totality of the circumstances.

> The totality of the circumstances comprises a number of factors, which include, but are not limited to, whether Defendants intentionally copied the product covered by Plaintiff's patent, whether the Defendant exercised due care to avoid infringing the patent, whether the Defendant relied on competent legal advice, and the Defendants' behavior as a party to the litigation.

R.A. 30-31 (emphasis added).

And, because the jury answered "yes" on both willfulness questions (J.A. 151a), the jury necessarily found, as a factual matter, that "*[d]efendants had actual knowledge of the Plaintiff's patent.*" J.A. 144a (emphasis added).

The court awarded damages twice the jury award as well as attorney's fees. Pet. App. 67a-68a. It also granted SEB's request for a permanent injunction. *Id.* at 69a. On motion for reconsideration, the court vacated the enhanced damages and attorney's fee award in light of an intervening decision of the Federal Circuit that changed the legal standard for willfulness. See *SEB S.A.* v. *Montgomery Ward & Co.*, No. 99 Civ. 9284(SCR), 2008 WL 450416, at *1 (S.D.N.Y. Oct. 1, 2008). That legal conclusion did nothing to undermine the jury's factual finding that Pentalpha had actual knowledge of SEB's patent.

9. On cross appeals, the U.S. Court of Appeals for the Federal Circuit affirmed. It rejected Pentalpha's arguments on claim construction (Pet. App. 10a-16a), prosecution history estoppel (*id.* at 16a-19a),

SEB's expert's qualifications (*id.* at 20a-21a), and SEB's marking of its products (*id.* at 33a-36a). It also rejected SEB's arguments on enhanced damages and attorney's fees. *Id.* at 38a-40a. And it upheld both the inducing infringement and direct infringement liability findings against Pentalpha. *Id.* at 22a-24a.

The court began its analysis of the inducing infringement issue before this Court by noting that in *DSU Medical Corp.* v. *JMS Co.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006), it had held that knowledge of the patent was required for liability under § 271(b). Pet. App. 27a-28a. *DSU* did not specify, however, whether that knowledge could be constructive. *Ibid.* Borrowing language from this Court's decision in *Farmer* v. *Brennan*, 511 U.S. 825 (1994), the court of appeals held that the evidence at trial was sufficient to establish that Pentalpha, at a minimum, had constructive knowledge of SEB's patent because it was "deliberately indifferent" to the existence of that patent. *Id.* at 29a-33a.

Although the court used the language of "deliberate indifference," it framed its inquiry as whether Pentalpha had "'*constructive* knowledge of the patent.'" *Id.* at 27a-28a (quoting *Insituform Techs., Inc.* v. *Cat Contracting, Inc.*, 161 F.3d 688, 695 (Fed. Cir. 1998)) (emphasis in the original). And it focused on preventing an "accused wrongdoer [from] *actively disregard[ing] a known risk* that an element of the offense exists." *Id.* at 29a (emphasis added). In so doing, the court of appeals expressly relied upon the

standards of willful blindness to conclude that Pentalpha had actual knowledge of the patent:

> [T]he standard of deliberate indifference of a known risk is not different from actual knowledge, but is *a form of actual knowledge*. See, e.g., *United States* v. *Carani*, 492 F.3d 867, 873 (7th Cir. 2007) ("*Deliberate avoidance* is not a standard less than knowledge; it is simply another way that knowledge may be proved."); *Woodman* v. *WWOR-TV, Inc.*, 411 F.3d 69, 84 n.14 (2d Cir. 2005) ("We note that a party's knowledge of a disputed fact may also be proved through evidence that he *consciously avoided knowledge* of what would otherwise have been obvious [to] him.").

Pet. App. 30a (emphases added).

Reviewing the record, the court of appeals concluded that it contained "adequate evidence to support a conclusion that Pentalpha deliberately disregarded a known risk that SEB had a protective patent." *Id.* at 31a. The court focused specifically on the facts that Pentalpha was well-versed in U.S. patent law, but when it hired a patent attorney to perform a right-to-use search, it deliberately chose not to inform that attorney that its product was a copy of another product already on the market. *Id.* at 32a.

After Pentalpha's motion for rehearing en banc was denied, Pentalpha sought certiorari.

SUMMARY OF ARGUMENT

The central issue in this appeal is whether the Court should engraft onto the language of 35 U.S.C. § 271(b) a *per se* requirement that no defendant may ever be held liable for inducing patent infringement unless the patent owner first proves by direct evidence that the defendant had actual knowledge of the specific patent at issue. Nothing in the text, structure, or legislative history of § 271(b) supports such a blanket rule, nor does this Court's precedent or common sense, and so the Court should decline Pentalpha's invitation to create such an ill-advised rule.

The text of the statute does not support Pentalpha's rule. As with § 271(a), which creates strict liability for direct infringement, the text of § 271(b) contains no scienter requirement whatsoever. In contrast, § 271(c), governing contributory infringement, expressly requires a "knowing" violation.

Nor does the structure of the statute support Pentalpha's rule, for two reasons. First, ordinary rules of statutory interpretation would counsel that, if the Court is going to read any intent standard into § 271(b), it should necessarily be less than the "knowing" standard required in § 271(c)—otherwise, the Court would fail to give effect to Congress's omission of that term in § 271(b).

Second, §§ 284 and 285 provide for enhanced damages and attorney's fees, and precedent has long provided that both are available only for "willful"

infringement. Therefore, at a minimum, any standard of intent for § 271(b) should be less than willful—otherwise, every single violation of § 271(b)'s prohibition on inducing infringement would automatically qualify for enhanced damages and attorney's fees, an outcome that makes no sense in the statutory structure.

The legislative history likewise provides no support for Pentalpha's *per se* rule. Indeed, Congress was expressly urged to adopt Pentalpha's proffered standard—to replace "actively induces" with "willfully induces"—and Congress declined to do so. The Court should not now impose a standard that Congress chose not to adopt.

Left with no support in the text, structure, or legislative history of the statute, Pentalpha principally relies on this Court's decision in *Metro-Goldwyn-Mayer Studios Inc.* v. *Grokster, Ltd.*, 545 U.S. 913 (2005). Pentalpha, however, seriously misreads *Grokster*.

Grokster, of course, was a copyright case, not a patent case. Assuming *arguendo* that *Grokster* applies, Pentalpha's conduct easily satisfies the *Grokster* standard.

As an initial matter, nothing in *Grokster* requires actual knowledge of the specific patent infringed. Indeed, in *Grokster*, *none of the defendants had actual knowledge of the specific copyrights infringed*, and the Court nonetheless found them all liable for inducing infringement.

The Court's holding in *Grokster* contained two key elements: the substantive standard for inducement: "one who distributes a device *with the object of promoting* its use to infringe"; and, critically, the method of determining if that standard is satisfied: "*as shown by* [1] clear expression or [2] other affirmative steps taken to foster infringement." *Id.* at 936-37 (emphasis added).

In the case at bar, Pentalpha has taken numerous "other affirmative steps * * * to foster infringement." To wit,

- Pentalpha purchased SEB's product abroad (where it would have no U.S. patent markings) (J.A. 26a-27a);
- It disassembled and reverse engineered SEB's deep fryer (J.A. 119a-121a);
- Pentalpha "actually took [SEB's fryer] and changed the cosmetic design and just copied the features of the unit" (J.A. 118a);
- Then, it deliberately failed to tell its lawyer that it had copied SEB's product or to ask him to search SEB's patents (J.A. 111a-112a);
- At substantial profit, Pentalpha marketed, packaged, and sold hundreds of thousands of the copied units to U.S. retailers and distributors who in turn resold them in the United States (R.A. 63);
- When explicitly notified of SEB's patent, it continued selling the copied units unabated, *SEB S.A.* v. *Montgomery Ward & Co.*, 77 F. Supp. 2d at 399; and

- When enjoined by a federal district court from selling the copied units, Pentalpha quickly modified the design and began selling the "virtually identical" units—requiring yet another federal court injunction. *SEB S.A.* v. *Montgomery Ward & Co.*, 137 F. Supp. 2d at 285.

By any measure, Pentalpha's conduct was far more culpable than the conduct of the defendants in *Grokster*. And its extended pattern of deliberate conduct more than satisfies the test the Court established in that case.

Alternatively, even assuming that actual knowledge of the specific patent is required—a far stricter standard than the Court applied in *Grokster*—here, the undisputed facts demonstrate that Pentalpha's conduct constituted willful blindness, which, as a matter of law, provides constructive knowledge of the patent.

Critically, if the Court were to conclude that Pentalpha's conduct did not give rise to liability for inducing infringement, that decision would serve as a roadmap for unscrupulous foreign manufacturers to violate U.S intellectual property rights with impunity. Such an outcome would be directly contrary to the congressional intent in enacting § 271.

Nor would applying the plain language of § 271(b) ensnare innocent corporate behavior. Any of three narrow rules would avoid that outcome and easily resolve this case:

First, the Court could hold that the *Grokster* standard governs, and Pentalpha's highly culpable

conduct constituted "other affirmative steps taken to foster infringement." *Id.* at 937.

Second, even more narrowly, the Court could hold that a defendant cannot be willfully blind to another's intellectual property and remain immune from inducement liability.

And *third*, at the most narrow, the Court could hold that—in the limited circumstances where a defendant reverse engineers and copies a commercial product—the copier is obliged to at least make some effort to ascertain whether the copied product is protected by U.S. patents before selling the copies on the U.S. market.

All of those rules are faithful to the text and structure of the statute, target culpable behavior, and avoid ensnaring innocent actors.

Moreover, in this particular case, regardless of the Court's conclusions on the legal standards for inducement, given the explicit factual findings of the jury—both awarding the full damages for direct infringement and also expressly finding that Pentalpha in fact had actual knowledge of the patent—the Court should affirm the judgment of the court below.

ARGUMENT

Pentalpha's principal argument on appeal is that this Court should establish a *per se* rule that no defendant can ever be found liable for inducing

infringement under 35 U.S.C. § 271(b) unless it is first proven that the defendant had actual knowledge of the specific patent that was infringed. That proffered rule has no basis in the text or structure of the statute, is contrary to this Court's precedents, and makes little sense.

I. NOTHING IN THE TEXT OR STRUCTURE OF THE STATUTE REQUIRES DIRECT EVIDENCE OF ACTUAL KNOWLEDGE OF THE PATENT.

The starting point in any statutory construction case is of course the text. *Watt* v. *Alaska*, 451 U.S. 259, 265 (1981). The first three subsections of § 271 create three different types of patent infringement liability. Section 271(a) begins by defining direct infringement:

> [W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States, or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

By its terms, § 271(a) contains no scienter requirement, and it has long been held to create a strict liability standard for direct infringement. *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 484 (1964) ("*Aro II*") ("[I]t has often and clearly been held that unauthorized use, without more, constitutes infringement.").

The text of § 271(b), at issue here, is relatively short and to the point:

> Whoever actively induces infringement of a patent shall be liable as an infringer.

Like § 271(a), this subsection contains no express scienter requirement.

And finally, § 271(c) provides (emphasis added):

> Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, *knowing* the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

Of the three subsections, § 271(c) is the only one that contains an express scienter requirement, namely that the violation must be "knowing."[3]

Turning more closely to the precise text of § 271(b), the operative verb and adverb is "actively

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[3] In *Aro II*, the Court relied upon that express statutory term in holding that § 271(c) requires a showing that the "contributory infringer *knew* that the combination for which his component was especially designed was both patented and infringing." 377 U.S. at 488 (emphasis added).

induces," each part of which conveys precise meaning. "Induce," as Pentalpha correctly explains, means "[t]o lead on," "influence," "prevail on," or "to move by persuasion or influence." Pet'r Br. 32 (citing WEBSTER'S NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE (2d ed. 1952)). It carries both a causative connotation and, arguably, some implication of intent (see Part III, *infra*).

"Actively," in turn, means that the action that causes the inducement must be some kind of affirmative act, and not merely a failure to prevent infringement by another. See *Tegal Corp.* v. *Tokyo Electron Co.*, 248 F.3d 1376, 1378-79 (Fed. Cir. 2001) ("'Actively inducing,' like 'facilitating,' requires an affirmative act of some kind.") (internal citation omitted). Perhaps best defined by its antonym, "actively" excludes from the ambit of § 271(b) anything that can fairly be characterized as "passive" inducement.[4]

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[4] "Actively induces" was not a term of art commonly used in the patent law prior to its codification in § 271(b). For example, in the pre-codification patent cases, not one uses the precise term "actively induces." Only one uses the term "active inducement." *B.B. Chem. Co.* v. *Ellis*, 314 U.S. 495, 497 (1942) ("Petitioner insists that the respondents' acts of infringement, as found by the district court, were not limited to the sale of material for use by the patented method * * *, but amounted to active inducement of infringement by the shoe manufacturers and to cooperation with their infringing acts.") And only two use the derivative "actively induced," although both of those cases involved what is now called contributory infringement. *Individual Drinking Cup Co.* v. *Errett*, 297 F. 733, 737 (2d Cir. 1924) ("[I]t is then charged that defendants actively induced the

(Continued on following page)

Looking to the broader structure of the statute, § 284 allows for enhanced damages, and § 285 allows for attorney's fees—both of which have for many decades required a finding of "willful" infringement before they can be awarded. See *In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007) (en banc) (collecting cases).

Taking all of the text and structure together, several inferences can be drawn:

- *First*, because § 271(b) includes no express scienter requirement and because it provides that inducers "shall be liable *as an infringer*," there is a reasonable statutory argument that the intent requirement is the same as in § 271(a)—none whatsoever.[5]

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users of such machines to infringe, by persuading them that they may use defendants' fasteners with impunity") (quoting *Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 296-97 (6th Cir. 1896)) (internal citations omitted).

[5] As discussed *supra*, neither § 271(a) nor § 271(b) include any express intent requirement, and § 271(b) provides that anyone who "actively induces * * * *shall* be liable *as an infringer*." (Emphasis added.) In contrast, § 271(c) expressly requires a "knowing" violation. Thus, one could argue, §§ 271(a) and (b) both create strict liability offenses, and § 271(c) does not. This statutory pattern is reflected yet again in § 271(f), which Congress added in 1984. Section 271(f) addresses the supply, from the United States, of one or more components for assembly as an infringing device outside the United States. Section 271(f)(1) prohibits "active inducement," and—like § 271(b)—contains no express intent requirement. Section 271(f)(2) addresses components that are "not a staple article or commodity of commerce suitable for substantial noninfringing

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- *Second*, even if § 271(b) does implicitly include an intent requirement, it is fair to assume that it requires a lower level of intent than § 271(c), the latter of which expressly requires a "knowing" violation.[6] Otherwise, the Court would fail to give effect to Congress's omission of the term "knowing" in § 271(b).[7]

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use," and—like § 271(c)—expressly requires a "knowing" violation.

[6] Pentalpha argues that § 271(b) must have *the same or higher* standard of intent than § 271(c), because otherwise, Pentalpha urges, it would render § 271(c) superfluous. Pet'r Br. 18-21. But the two subsections address different problems. Section 271(c) addresses components "made or especially adapted" for infringement; it targets those who provide items "unsuited for any commercial noninfringing use." *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 441 (1984) (internal citation and quotations omitted). Liability under § 271(c) is tied to the *item*—the especially adapted component—and so a "knowing" standard about how that item can be employed makes sense. Section 271(b), in contrast, is tied to defendant's *action*, namely "actively induc[ing] infringement." Each provision covers a different subject, and so the intent standard for each need not coincide. And the drafters of § 271 recognized that simply selling a staple article would not open one up to § 271(b) liability. See Giles S. Rich, *Infringement Under Section 271 of The Patent Act of 1952*, 21 GEO. WASH. L. REV. 521, 541 (1953) ("The seller should not be liable under paragraph (b) for *merely* selling because merely selling a staple is not what is meant by 'active inducement.'") (emphasis in original).

[7] See *Keene Corp.* v. *United States*, 508 U.S. 200, 208 (1993) ("[W]here Congress includes particular language in one section of a statute but omits it in another * * *, it is generally presumed that Congress acts intentionally and purposely in the

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- And *third*, at a minimum, even if § 271(b) requires intent, it must require a lower level of intent than "willfulness," which is the intent required for an award of enhanced damages and attorney's fees. Otherwise, every violation of § 271(b) would automatically qualify for enhanced damages and attorney's fees—an outcome that finds no support in the structure of the statute or in common sense.[8]

Nowhere in the text or the structure of the statute is there any basis for Pentalpha's proffered *per se* rule: that any liability under § 271(b) necessarily requires direct evidence of actual knowledge of the specific patent that was infringed. If intent is required, ordinary rules of statutory construction would provide that it should be less than the "knowing" standard that is expressly required in § 271(c) and, at a minimum, less than "willful" as required for enhanced damages and attorney's fees.

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disparate inclusion or exclusion.") (quoting *Russello* v. *United States*, 464 U.S. 16, 23 (1983) (alteration and omission in original)); see also *Lindh* v. *Murphy*, 521 U.S. 320, 330 (1997).

[8] See *Trans World Airlines, Inc.* v. *Thurston*, 469 U.S. 111, 127-28 (1985) (rejecting an overly broad standard for "willfulness" under the ADEA because it "would result in an award of double damages in almost every case" and thus would "frustrate" the intent of Congress to create "a two-tiered liability scheme"); *McLaughlin* v. *Richland Shoe Co.*, 486 U.S. 128, 132-33 (1988) (same).

II. THE LEGISLATIVE HISTORY LIKEWISE CONFIRMS THAT § 271(b) DOES NOT REQUIRE ACTUAL KNOWLEDGE OF THE SPECIFIC PATENT INFRINGED.

An interpretation of § 271(b) that inducing infringement liability can be proven only when there is evidence of actual knowledge of the specific patent would also not be consistent with the legislative history. The text that ultimately became § 271(b) spanned three Congresses: H.R. 5988 in the 80th Congress, H.R. 3866 in the 81st Congress, and both H.R. 3760 and H.R. 7794 in the 82nd Congress. *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 204 (1980).

Importantly, the bills were a response to this Court's decisions narrowing the scope of contributory infringement—decisions that, in the bill drafters' view, had "legalized" the "stealing of inventions."[9]

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[9] *Contributory Infringement in Patents–Definition of Invention: Hearings on H.R. 5988 before the Subcomm. on Patents, Trademarks, & Copyrights of the H. Comm. on the Judiciary*, 80th Cong. 3 (1948) ("1948 Hearings") (statement from N.Y. Patent Law Ass'n) ("The purpose of the bill is to restore the stimulus of the patent system to large and important fields of inventive effort which have, in practical effect, been placed outside the patent law by recent decisions of the Supreme Court abolishing effective protection against contributory infringement."); *ibid.* ("Some of the decisions of the Supreme Court which have destroyed this doctrine [of contributory infringement] and legalized such stealing of inventions are the following: *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27 (1931); *Leitch M[anufacturing] Co.* v. *Barber Co.*, 302

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Over the course of the consideration, the bill text remained nearly identical through all three Congresses. Giles S. Rich, then-president of the New York Patent Law Association and "one of the main drafters of the [Patent] Act,"[10] *Bilski* v. *Kappos*, 130 S. Ct. 3218, 3247-48 (2010), explained the purpose of § 271(b): "[w]here a patent is being infringed by a large number of scattered individuals all of whom have been caused to infringe by the same person, the practical way to stop the infringement is to sue the man who caused the infringement, rather than the multitude of persons who are infringing." 1948 Hearings 3 (statement of Giles S. Rich).[11] As Rich later described, the purpose of § 271(b) was to "hold liable the mastermind who plans the whole infringement." Giles S.

U.S. 458 (1938); *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944); *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944))."

[10] Judge Rich later served on the Court of Customs and Patent Appeals, and its successor, the Court of Appeals for the Federal Circuit, from 1956 until 1999.

[11] Some *amici* urge that some pre-codification cases can be read to require proof of willfulness or actual knowledge. See, e.g., Business Software Alliance Br. 14-16; Google Br. 10-11; Comcast Br. 8-12. But this Court has already concluded that § 271(b) was *not* intended merely to codify the common law. In *Dawson*, the Court explained that "the relevant legislative materials abundantly demonstrate an intent both to change the law and to expand significantly the ability of patentees to protect their rights against contributory infringement * * * * [T]he 1952 Act did include significant substantive changes, and * * * § 271 was one of them." 448 U.S. at 203-04 (construing §§ 271(b), (c) and (d)).

Rich, Address Before the N.Y. Pat. Law Ass'n (Nov. 6, 1952), *reprinted in* 3 J. FED. CIR. HIST. SOC'Y 103, 113 (2009).

Concerns were raised that the language of "actively induces infringement" was too broad and would unfairly ensnare good-faith actors. See, e.g., 1948 Hearings 20-21 (statement of George E. Folk, Patent Adviser to the Nat'l Ass'n of Mfrs.); *Contributory Infringement: Hearings on H.R. 3866 before Subcomm. No. 4 of the H. Comm. on the Judiciary*, 81st Cong. 51 (1949) ("1949 Hearings") (statement of John C. Stedman, Chief, Legis. & Clearance Section, Antitrust Div., Dep't of Justice). Obviously, these concerns were not enough to stop Congress from passing the bill.

Of most relevance here, it was specifically proposed that the phrase "actively induces" be replaced with "willfully induces." 1949 Hearings 83 (letter from H.C. Ramsey, Chairman, Comm. on Patents & Research, Nat'l Ass'n of Mfrs.). That suggestion was not adopted.[12] Indeed, the legislative history is consistent in showing that at no point in the process did Congress contemplate that proof of actual knowledge of the specific patent was a necessary component of

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[12] Likewise, Congress also considered and rejected a proposal to replace "actively induces" with the notion of "aiding and abetting." See 1948 Hearings 30-32 (statement of Harold F. Watson, Am. Patent Law Ass'n) (proposing language that "[a]ny person, either with or without knowledge of a patent, who by his act aids another to infringe the patent shall be liable as a contributory infringer").

§ 271(b)'s inducing infringement liability,[13] and Congress specifically rejected the suggestion made here by Pentalpha and its *amici* that the statute be read as requiring willfulness. See *Hamdan* v. *Rumsfeld*, 548 U.S. 557, 579-80 (2006) ("Congress's rejection of the very language that would have achieved the result the Government urges here

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[13] Similarly, when § 271(f) was enacted in 1984, Congress adopted the same distinction found in §§ 271(b) and (c). As initially proposed, § 271(f) contained a single section and expressly required knowledge that the device would infringe. *Patent Law Improvements Act: Hearing on S. 1535 before the Subcomm. on Patents, Copyrights & Trademarks of the S. Comm. on the Judiciary*, 98th Cong. (1984). Anticipating the same type of concern raised in the present case, witnesses implored Congress to delete the knowledge requirement:

> [W]e suggest deletion of the phrase in proposed section 271(f) requiring the infringer to have knowledge that combining the invention's components in the United States would be an infringement. Under the patent laws today, a patent may be infringed without the infringer's knowing that he is doing so. It is inconsistent and unfair, therefore, to provide a remedy for overseas assembly of a patented device only if the exporter knows that such assembly will infringe the patent.

Id. at 26 (prepared Statement of Hon. Gerald J. Mossinghoff, Assistant Sec'y of Commerce & Comm'r of Patents & Trademarks). See also *id.* at 55-56 (prepared Statement of Bernarr R. Pravel, President, Am. Intell. Prop. Law Ass'n). As a result, § 271(f) was divided into two parts, and the part providing liability for "active inducement" contained no "knowing" requirement.

weighs heavily against the Government's interpretation.") (plurality opinion).

III. UNDER THE STANDARD ARTICULATED BY THIS COURT IN *GROKSTER*, PENTALPHA WAS PROPERLY HELD LIABLE FOR INDUCING INFRINGEMENT.

Of course, this Court is not analyzing the statute on a *tabula rasa*. The Court has before considered the level of intent required for inducement, most recently in *Grokster*, 545 U.S. 913 (2005). Indeed, as Pentalpha frames the case, the outcome turns on whether or not *Grokster* controls—thus, that is the sole question presented in Pentalpha's view. Accordingly, Pentalpha spends virtually the entire argument section of its brief urging the Court to apply the *Grokster* standard of "purposeful, culpable expression and conduct." After erecting that edifice, Pentalpha asserts the following:

> *A fortiori*, because one cannot have a purpose to infringe a patent of which one is unaware, this state of mind standard *necessarily requires that the accused inducer have actual knowledge of the patent*.

Pet'r Br. 26 (emphasis added). This lone conclusory sentence is the only argument that Pentalpha provides that the *Grokster* standard requires actual knowledge of the specific patent infringed. Pentalpha is incorrect.

In *Grokster*, the Court addressed the standard for inducement of copyright infringement, and, in doing so, borrowed heavily from patent law.[14] The Court observed that "the lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn." 545 U.S. at 930 n.9 (quoting *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 435 n.17 (1984)) (internal quotations omitted). Nevertheless, the Court explained that "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement." *Grokster*, 545 U.S. at 930.

Looking to patent law, the Court adopted what it described as the patent-law "inducement rule," characterizing its holding as follows:

> We adopt [the patent-law inducement rule] here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster

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[14] *Amici* MPAA and RIAA urge this Court to be mindful of the distinctions between inducing infringement in copyright and patent law. MPAA Br. 4-24. The distinction, however, is not implicated in this case. Indeed, what Pentalpha did here (copy a competitor's entire product) is more akin to "outright piracy" than even the conduct in *Grokster*. See MPAA Br. 13-14 ("In the mine run of cases, induced copyright infringement takes the form of outright piracy, such as wholesale copying of an entire protected work * * * * Such wholesale copying of entire copyrighted works leaves no doubt that infringement has occurred. It requires no expert testimony. And it is clearly culpable conduct.").

> infringement, is liable for the resulting acts of infringement by third parties.

Id. at 936-37.

Thus, the holding of *Grokster* encompassed two elements:

- the substantive standard for inducement: "one who distributes a device *with the object of promoting* its use to infringe," and
- the method of determining if that standard is satisfied: "*as shown by* [1] clear expression or [2] other affirmative steps taken to foster infringement."

Ibid. (emphasis added).

The purpose of this rule, the Court explained, was to distinguish "culpable" behavior from innocent behavior (*id.* at 937), so that those fairly characterized as bad actors would face liability, and those simply engaging in ordinary commerce would not.

Assuming that the *Grokster* test applies to § 271(b),[15] Pentalpha's conduct easily satisfies it. Critically, none of the defendants in *Grokster* had specific knowledge of the precise copyrights that would be infringed by their customers. Instead, the Court found persuasive "[t]hree features of th[e] evidence of intent." *Id.* at 939. First, each defendant

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[15] But see *id.* at 934 n.10 (distinguishing the broader liability under § 271(b) from the more circumscribed liability under § 271(c)).

company "showed itself to be aiming to satisfy a known source of demand" for the infringement; second, neither company developed software filtering tools to minimize their infringement; and third, the companies profited by the increased infringement of their users. *Id.* at 939-40.

By any measure, Pentalpha's conduct is at least as culpable, if not more so, than that of the defendants in *Grokster*. The *Grokster* test measures inducement "*as shown by* [1] clear expression or [2] other affirmative steps taken to foster infringement." *Id.* at 937. And Pentalpha carried out numerous "other affirmative steps taken to foster infringement":

- Pentalpha purchased SEB's product abroad (where it would have no U.S. patent markings) (J.A. 26a-27a);
- It disassembled and reverse engineered SEB's deep fryer (J.A. 119a-121a);
- As the the former head of Pentalpha Enterprises U.S. explicitly admitted, Pentalpha "actually took [SEB's fryer] and *changed the cosmetic design and just copied the features of the unit*" (J.A. 118a) (emphasis added);
- It obtained a patent search from a small law firm in Binghamton, New York (S.A. 17-37) ("in the middle of nowhere," as the district court characterized it (R.A. 63-64)), and then it *deliberately failed to tell the lawyer that it had copied SEB's product or to ask him to search SEB's patents* (J.A. 111a-112a);

- At substantial profit, Pentalpha marketed, packaged, and sold hundreds of thousands of the copied units to U.S. retailers and distributors who in turn resold them in the United States (R.A. 61-63);
- Pentalpha supplied English-language operating manuals with the product bearing the names of the retailers and distributors (S.A. 5-16);
- When explicitly notified of SEB's patent on or about April 9, 1998 (when Sunbeam notified Pentalpha of SEB's suit), it continued selling the copied units unabated, *SEB S.A.* v. *Montgomery Ward & Co.*, 77 F. Supp. 2d at 399; and
- When enjoined by a federal district court from selling the copied units, it quickly modified the design in minor respects and began selling the "virtually identical" units—requiring SEB once again to seek (and obtain) yet another federal court injunction. *SEB S.A.* v. *Montgomery Ward & Co.*, 137 F. Supp. 2d at 285.

On any fair assessment, those are not the actions of an innocent. As the jury had no difficulty concluding, Pentalpha was entirely culpable—indeed, its conduct was not only unlawful, it was willfully so, see Part V.B, *infra*. By any measure, Pentalpha's conduct evidences a greater degree of active participation in the wrongdoing than Grokster's; whereas Grokster merely sold a product with the knowledge and intent that others would use it to infringe, Pentalpha purposely

and directly infringed itself and then deceived other innocent third parties into doing the same.[16]

Nothing in *Grokster* requires actual knowledge of the specific patent infringed—*any more than it required actual knowledge of the specific copyrights that were going to be infringed* by Grokster's product. Instead, *Grokster* required only "clear expression or other affirmative steps taken to foster infringement." *Id.* at 937. Here, Pentalpha's conduct easily meets that test.

IV. ALTERNATIVELY, EVIDENCE OF WILLFUL BLINDNESS FULLY SUPPORTS IMPOSING LIABILITY UNDER § 271(b).

A. Even if Actual Knowledge of the Specific Patent Were Required, Pentalpha's Willful Blindness to SEB's Patent Provided Constructive Knowledge of that Patent.

To prevail, Pentalpha must convince the Court (1) that liability under § 271(b) in effect requires willfulness, as demonstrated by actual knowledge of the specific patent that would be infringed; and (2) that actual knowledge can be demonstrated only by direct evidence. Neither proposition is defensible.

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[16] For that reason, Pentalpha was forced to indemnify Sunbeam for its subsequent direct infringement, which Pentalpha had induced in the first place.

Even assuming *arguendo* that the Court were to hold that actual knowledge of the specific patent is required—in effect, adopting a far stricter standard for intent than the Court applied in *Grokster*—then the undisputed evidence of Pentalpha's willful blindness to SEB's patent should nonetheless constitute constructive knowledge of that patent.[17]

Pentalpha's demand that knowledge can be proven only by direct evidence finds no support in the case law. As *amicus* Intellectual Property Owners Association observed,

> [i]n many cases no direct evidence exists that the defendant actually knew of the asserted patent before the action was filed. Absent the smoking gun to the contrary, however, there may be circumstantial evidence that the defendant knew of a greater, more specific risk of patent infringement * * * *

Intell. Prop. Owners Ass'n Br. 3.

Nothing in the statute requires the unlikely smoking gun of Pentalpha's President Mr. Sham admitting on the stand "yes, I knew of SEB's '312 patent from the outset." Rather, as the Court observed recently, "knowledge must *almost always* be

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[17] Of course, "willful blindness" is distinct from "willful infringement," the former being a long-accepted method of establishing constructive knowledge of a general fact and the latter being the standard allowing for enhanced damages and attorney's fees under patent law.

proved by circumstantial evidence." *United States* v. *Santos*, 553 U.S. 507, 521 (2008) (plurality opinion) (emphasis added; internal punctuation omitted).

And, even without direct or circumstantial evidence of actual knowledge, if a party remains willfully blind to the specific patent, as a matter of law that constitutes constructive knowledge of the patent.[18] Thus, "knowledge consciously avoided is the legal equivalent of knowledge actually possessed." *United States* v. *Svoboda*, 347 F.3d 471, 480 (2d Cir. 2003); see also *United States* v. *One 1973 Rolls Royce*, 43 F.3d 794, 808 (3d Cir. 1994) ("[W]illful blindness is a subjective state of mind that is deemed to satisfy a scienter requirement of knowledge.").

As this Court has explained, willful blindness arises when a party, "aware of a high probability" of a fact, "*deliberately avoids* learning the truth." *Santos*, 553 U.S. at 521 (emphasis added). That is precisely what occurred here.

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[18] Several *amici* urge the Court "to set forth the requirements for constructive knowledge consistent with the traditional formulation of willful blindness." Fed. Cir. Bar Ass'n Br. 13-14; Cisco Br. 16 ("Actual knowledge can also be proven through the familiar doctrines of 'willful blindness' and 'conscious avoidance'."); Intell. Prop. Owners Ass'n Br. 12 ("Liability might also be established if the evidence showed that the defendant purposefully made sure *not to know* about the patent in suit * * * * *") (emphasis in original); Yahoo Br. 17 n.3 ("Of course, willful blindness to a fact is itself knowledge of the fact.").

Pentalpha knew the following:

- At least since 1996, SEB had been selling deep fryers in the U.S. J.A. 122a.
- Pentalpha purchased SEB's deep fryer overseas, where it would not contain U.S. patent markings. J.A. 26a-27a.
- Pentalpha disassembled and reverse engineered SEB's deep fryer. J.A. 119a-121a.
- Pentalpha "actually took [SEB's fryer] and *changed the cosmetic design and just copied the features of the unit.*" J.A. 118a (emphasis added).

Presumably, the precise reasons that Pentalpha had purchased, reverse engineered, and then copied SEB's fryer were that (1) it believed the SEB fryer embodied useful technological advances, and (2) it believed these advances were commercially valuable in the U.S. market. Those facts present a paradigmatic example of when a party is "aware of a high probability" that a product contains patented inventions.

Indeed, there is a powerful argument that the deliberate copying of a complete commercial product —with the intent of selling the copied product on the U.S. market— raises, at a minimum, an affirmative obligation to ascertain whether that particular commercial product is protected under the U.S. patent laws. By way of comparison, "evidence of copying" is likewise deemed probative of willfulness for enhanced-damages under § 284. See *DePuy Spine, Inc.*

v. *Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1335-36 (Fed. Cir. 2009) (citing *Seagate*, 497 F.3d at 1371).[19]

Regardless, here the jury reasonably concluded that Pentalpha met the *Santos* standard of "deliberately avoid[ing] learning the truth." To be sure, Pentalpha did ask an attorney to conduct a patent search (so that it could sell its products to Sunbeam), but it deliberately failed to tell the attorney the critical fact necessary to do so: that the product in question had been directly copied from SEB's deep fryer.

Had Pentalpha given the attorney that information, it would have received certain confirmation of SEB's patent. Instead, Pentalpha got what it wanted: plausible deniability.

Several of the *amici* raise concerns about the "patent thicket," about how difficult it may be to discover every patent potentially in the universe. However, that problem was not presented by the facts of this case. As a practical matter, it is markedly easy to identify relevant patents if one already knows the name of the potential patentee. For example, if patent counsel had been told that the fryer had been copied from SEB's fryer—and nothing more—that counsel

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[19] See also Intell. Prop. Owners Ass'n Br. 13 ("[C]ircumtantial evidence of * * * purposeful disregard may include, for example, evidence of a defendant's copying a competitor's product * * * * *").

could have gone to the Patent and Trademark Office's records and found SEB's patent within minutes.[20]

That, however, was not Pentalpha's objective; Pentalpha did not want its lawyer to know that it had copied SEB's product. And, as *amicus* Intellectual Property Owners Association explains,

> [p]utting one's proverbial head in the sand--perhaps taking care *not* to know of the particular patent that is later asserted—should not allow one to avoid liability for inducement; to so hold would gut [§] 271(b).

Intell. Prop. Owners Ass'n Br. 5-6.

B. The Federal Circuit's Standard Was Merely Another Formulation of Willful Blindness.

Pentalpha devotes the substantial majority of its argument (Pet'r Br. 16-21, 28-35) to attacking the

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[20] Today, one simply has to go to www.uspto.gov, click on "Search patent databases," click on "USPTO Patent Full-Text and Image Database," and then click on "Quick Search." Entering "SEB" and "fryer," and setting both to "All Fields," yields 59 results (as of December 30, 2010). One of those results is the '312 patent, "Cooking appliance with electric heating"—the precise patent at issue here. This can all be done with a few mouse clicks, zero cost, without any special software, and in about two minutes. Even in 1997, one could have found much of the same information by a computer search either of the USPTO records, see http://www.uspto.gov/news/pr/1995/95-31.jsp, or of a private database, such as Lexis-Nexis or Derwent.

Federal Circuit's precise formulation of its standard, and in particular its verbiage concerning "deliberate indifference of a known risk." Of course, this Court reviews judgments, not opinions. *Chevron, U.S.A., Inc.* v. *Natural Resources Def. Council, Inc.*, 467 U.S. 837, 842 (1984). The judgment of the Federal Circuit upheld the jury verdict, and functionally, the basis for doing so was willful blindness.[21]

This Court has previously wrestled with various levels of intent in civil statutes. In *Safeco Insurance Co. of America* v. *Burr*, 551 U.S. 47, 56-57 (2007), the Court considered whether "willfully" failing to comply with the FCRA required a "know[ing]" violation, or whether it included "reckless disregard" as well. The Court concluded that "willfulness" encompassed *both* knowing and reckless conduct. *Ibid.* ("[W]e have generally taken ["willfulness"] to cover not only knowing violations of a standard, but reckless ones as well * * * * *") (collecting cases).

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[21] Pentalpha likewise devotes considerable criticism to the Federal Circuit's reference to whether Pentalpha "knew or should have known" that its actions would induce infringement. That language is precisely the standard reflected in the RESTATEMENT (SECOND) OF TORTS (1979) concerning inducement:

> For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he * * * orders or *induces* the conduct, if he *knows or should know* of the circumstances that would make the conduct tortious if it were his own * * * *

Id. at § 877 (emphases added). And, regardless, the test that the Federal Circuit actually applied was a test of willful blindness, not merely a "knew or should have known" test.

As discussed in Parts I and II *supra*, it cannot be that inducing infringement under § 271(b) requires willfulness, because that is the same standard required for enhanced damages and attorney's fees under §§ 284 and 285. Cf. *Trans World Airlines*, 469 U.S. at 127-28. And given that willfulness encompasses recklessness as well—under both *Safeco* and the Federal Circuit's *en banc Seagate* decision, 497 F.3d at 1370-71—it likewise makes little sense under the statute to require recklessness under § 271(b). Otherwise, every violation of § 271(b) would automatically qualify for enhanced damages and attorney's fees.

Although the Federal Circuit used the language of "deliberate indifference," it framed its inquiry as whether Pentalpha had "'*constructive* knowledge of the patent.'" Pet. App. 28a (quoting *Insituform Techs.*, 161 F.3d at 695) (emphasis in the original). That, of course, is the same inquiry as with willful blindness.

And it focused on preventing an "accused wrongdoer [from] actively disregard[ing] a known risk that an element of the offense exists." Pet. App. 29a. In so doing, the Federal Circuit expressly relied upon the standards of willful blindness:

> [T]he standard of *deliberate indifference of a known risk* is not different from actual knowledge, but is a form of actual knowledge. See, e.g., *United States* v. *Carani*, 492 F.3d 867, 873 (7th Cir. 2007) ("*Deliberate avoidance* is not a standard less than knowledge; it is simply another way that knowledge may be proved."); *Woodman* v.

> *WWOR-TV, Inc.*, 411 F.3d 69, 84 n.14 (2d Cir. 2005) ("We note that a party's knowledge of a disputed fact may also be proved through evidence that he *consciously avoided knowledge* of what would otherwise have been obvious [to] him.").

Id. at Pet. App. 30a. (emphases added).

And, regardless of the precise verbal formulation employed by the Federal Circuit, the judgment of the court was to affirm the district court, and the district court's reasoning was precisely that of willful blindness. As the Federal Circuit explained,

> [T]he [district] court held that there was evidence to support SEB's theory of inducement, which the court characterized as follows:
>
> > [SEB is] saying that you could infer the specific intent to * * * encourage the infringement by the fact that [Pentalpha's president] *doesn't disclose that* [*Pentalpha copied* the SEB product] to the people doing the [patent] search. [***Pentalpha***] ***wants them to do a search that * * * is doomed to failure***, and that that is enough, that a reasonable jury could infer that, specific intent * * * * Here is the argument. There are a zillion patent attorneys in New York City, [yet][t]hey go to this guy in the middle of nowhere to do this patent search * * * * I don't know what happened. I'm not in [Pentalpha's

> President's] head. I don't know what he did * * * * I think it is * * * a reasonable argument, could a jury infer from those actions, if they chose to believe them in the way the plaintiffs want, that that was an indication that [*he*] *understood that he was likely violating a patent, in fact violating a patent.*
>
> The district court therefore allowed SEB's inducement claim to reach the jury.

Pet. App. 7a-8a (emphases added).[22]

As the district court concluded, Pentalpha took affirmative steps *not* to know that SEB's fryer was protected by a patent. That is the essence of willful blindness.

On its face, the district court's ruling on Pentalpha's Motion for Judgment as a Matter of Law turned on

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[22] The jury charge explained as follows:

> Defendants cannot be liable for inducing infringement if they had no reason to be aware of the existence of the '312 patent.
>
> If you find that someone has directly infringed the '312 patent and that the Defendants knew or should have known that its actions would induce direct infringement, you may find that Defendants induced another to infringe Plaintiff's patent by supplying the infringing deep fryers *with the knowledge and intent that their customers * * * would directly infringe by selling the deep fryers in the United States.*

J.A. 148a. (emphasis added).

Pentalpha's not "*disclos*[*ing*] *that* [*Pentalpha copied* the SEB product] to the people doing the [patent] search. [Pentalpha] *wants them to do a search that* * * * *is doomed to failure.*" *Id.* at 8a. That is the language of willful blindness, and that is the judgment that the Federal Circuit affirmed.

V. IMMUNIZING PENTALPHA'S CONDUCT FROM LIABILITY WOULD SERIOUSLY COMPROMISE THE PROTECTION OF U.S. INTELLECTUAL PROPERTY.

A. If Pentalpha Is not Held Liable for Inducement, Unscrupulous Foreign Manufacturers Will View this Case as a Roadmap for Knocking Off Products and Selling Them in the United States Without Regard for U.S. Intellectual Property Rights.

The protection of U.S. intellectual property rights abroad is a serious legal and policy concern. There is no dispute that Pentalpha deliberately copied a product that was protected by a U.S. patent. Pentalpha deliberately avoided learning about the specific patent, and then took active steps to cause innocent third-party retailers and distributors to buy its copied product and re-sell it in the United States. If Pentalpha is not held liable for inducing this infringement, this case will serve as a roadmap for others to violate U.S. intellectual property rights with impunity.

As one of the principal authors of § 271(b) explained, "[t]hieves are ingenious scoundrels." Rich, 21 GEO. WASH. L. REV. at 531. If Pentalpha were to prevail, any foreign company would be free to (1) purchase a U.S. patent-protected product abroad (where it will lack U.S. patent markings); (2) reverse engineer and copy that product; (3) deliberately avoid learning if that particular product is protected by U.S. patents; and then (4) sell the copied products to U.S. retailers free of liability for inducing infringement.

If those producers are not liable for inducement, there is a real possibility that they would not be liable for direct infringement either. In the district court, Pentalpha vigorously argued that, simply because the deep fryers were sold FOB Hong Kong or China, it could not be found liable under § 271(a). That argument was rejected in this case (Pet. App. 26a-27a) and is not presently before this Court.[23] Indeed, it was for that reason that the inducement claim was included in the first place—to ensure liability for a foreign manufacturer who was misappropriating U.S. intellectual property and who might otherwise escape responsibility.

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[23] Before this Court, Pentalpha continues to press the presumption against extraterritoriality. Pet'r Br. 24-26. Regardless of its applicability in general, in this case the facts belie Pentalpha's position. Pentalpha received the orders from U.S. companies, manufactured the deep fryers with U.S. electrical fittings and U.S. brand names, and arranged to have them shipped into the United States with U.S. operating manuals. Pentalpha even expressly consented to have its own conduct governed by U.S. law in its contract with Sunbeam. See J.A. 9a ("This Agreement shall be interpreted, enforced, and construed under the laws of the State of Florida * * * *").

If willful blindness of specific patent rights can serve to immunize one from liability under § 271(b), that outcome would significantly frustrate the intent of Congress to provide effective deterrence to those who would otherwise induce infringement. And it would expose innocent third-party retailers in the U.S. to liability for direct infringement, without allowing liability for the truly culpable actor.[24]

As this Court explained:

> When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement.

Grokster, 545 U.S. at 929-30. It would make little sense for the only morally culpable actor in this decade-long drama to be relieved of responsibility for inducing infringement, while holding the innocent

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[24] SEB would also have a right under § 271(a) to sue each of the hundreds of thousands of individual users who bought an infringing Pentalpha deep fryer from one of the American retailers and used it in their homes. These individuals would then have a right to sue the U.S. retailers for indemnification, and then the U.S. retailers would in turn have a right of indemnification from Pentalpha. It is impractical for SEB to sue so many individuals for such a small per-infringement recovery, and that is why the patent law allows for the patent holder to recover, in one suit, from the party ultimately responsible for the infringement– here, Pentalpha.

third-party retailers liable.[25] Nothing in the statute supports such a counterintuitive outcome.

B. Pentalpha's Concerns About Capturing "Innocent" Market Participants Are Greatly Exaggerated.

Pentalpha casts itself as a defender of "innocent" market participants, and its *amici* raise a number of real concerns. There are, no doubt, too many bad patents, too many vague patents, and too many litigants using patent litigation to harass and extract payments from good-faith commercial enterprises. While all true, none of that is relevant to the case at bar.

Pentalpha did not find itself ensnared by a non-practicing entity ("NPE" or "patent troll") or by some obscure submarine patent that emerged after it had independently developed a new commercial product. Instead, the patent-in-suit issued to SEB, a major competitor in the field, years before Pentalpha entered the market. Pentalpha then took SEB's

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[25] The Uniform Commercial Code endeavors to protect the innocent when it comes to patent infringement:

> Unless otherwise agreed, a seller that is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement * * * *

U.C.C. § 2-312(2). But foreign sellers selling FOB overseas – particularly unscrupulous sellers who would be inclined to copy the intellectual property of others—may fall outside U.S. jurisdiction and so escape claims for indemnification as well.

successful commercial product, illicitly copied it, and remained willfully blind to the owner's intellectual property while it profited substantially from selling the copied products in the United States.[26]

Accordingly, any rule that the Court sets out in this case can be quite narrow:

- First, the Court could hold that the *Grokster* standard governs, and Pentalpha's highly culpable conduct constituted "other affirmative steps taken to foster infringement."
- Second, even more narrowly, the Court could hold that a defendant cannot be willfully blind to another's intellectual property and remain immune from inducement liability.
- And third, at the most narrow, the Court could hold that—in the limited circumstances where a defendant reverse engineers and copies a commercial product—the copier is obliged to at least make some effort to ascertain whether the copied product is protected by U.S. patents before selling the copies on the U.S. market.

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[26] Moreover, the facts here are markedly different from the circumstances raised by several *amici* in the technology sector. Computer hardware and software typically have multiple potential uses, and so questions of contributory infringement usually turn on what the defendant knew about how the product would in fact be used. In contrast, Pentalpha copied a commercial product—a deep fryer designed for home use—that had but one use. And, because that product had been reverse engineered to copy SEB's entire product, every single use was necessarily infringing.

At the narrowest, that rule would affect almost no good-faith commercial actors.[27] As *amici* point out, "empirical evidence suggests that only a small percentage of patent cases involve copying of the plaintiff's invention." Lemley Br. 16. "Deliberate copying and willful infringement are * * * rare in the patent context." MPAA Br. 19. And a copied, patented product has no non-infringing use; every single use or sale violates the rightful owner's intellectual property rights. Indeed, a rule focused on deliberate copiers protects innocent actors, comports with existing law, and properly attaches liability to morally culpable conduct.

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[27] Despite Pentalpha's rather odd assertion to the contrary (Pet'r Br. 23), inducements that result in no harm do not expose an actor to liability because there can be no liability for inducement in the absence of direct infringement. See *Grokster*, 545 U.S. at 940 ("[T]he inducement theory of course requires evidence of actual infringement by the recipients of the device * * * *"). Indeed, the jury was expressly so instructed: "To show inducement, Plaintiff must prove by a preponderance of the evidence that someone has directly infringed the patent." J.A. 147a.

VI. EVEN IF THE COURT WERE TO FIND ERROR IN THE INDUCEMENT STANDARD, THE COURT SHOULD STILL AFFIRM THE JUDGMENT.

A. Even if the Inducement Finding Were Set Aside, the Judgment Should Be Affirmed Because all the Damages Are Attributable to Pentalpha's Direct Infringement.

The jury returned a special verdict, separately finding Pentalpha liable for both direct infringement and also inducing infringement. Even if the Court were to reverse the inducement finding, the entire damage award is still supported by the direct infringement finding—which is not challenged by Pentalpha in this Court.

The Federal Circuit acknowledged that "[n]ormally [a special verdict with two grounds for liability] could support a damages award even if only one theory was correct." Pet. App. 23a. However, the court perceived what it described as a "hopeless ambiguity" between the verdict form and the jury instructions. *Id.* at 23a. The court explained:

> The verdict form itself suggests that the jury was asked to base its damages calculation on inducement only. The verdict form asked, "What amount of damages in the form of a reasonable royalty do you find the plaintiff to have proven by a preponderance of the evidence with respect to deep fryers *sold*

> *by* Sunbeam, Fingerhut, and Montgomery Ward?"

Ibid. (emphasis added).

In contrast, the jury instructions told the jury to base damages on the number of fryers sold by Pentalpha:

> The patent law specifically provides that the amount of damages that the Defendants must pay Plaintiff for infringing Plaintiff's patent may not be less than a reasonable royalty *for the use that the Defendants made of Plaintiff's invention.* You must determine what a reasonable royalty would be for the infringing sales *of these Defendants and their subsidiaries.*

Pet. App. 23a-24a (emphasis in original).

Because the number of fryers sold by Pentalpha is the measure of damages for direct infringement and the number of fryers sold by the retailers is the measure of damages for inducement, the Federal Circuit concluded it could not determine the basis of the damages award and so it needed to uphold *both* bases to uphold the damages award (which it did). *Id.* at 24a.

However, the Federal Circuit was mistaken. In this case, there is no ambiguity whatsoever: At trial, the parties *stipulated* to the number of deep fryers sold, and to whom. R.A. 63 (stipulating that Pentalpha sold 312,736 deep fryers to Sunbeam, 46,418 deep fryers to Montgomery Ward, and 47,064 deep

fryers to Fingerhut). Thus, there was no difference at all in the number of fryers sold by Pentalpha and the number sold by the retailers—by stipulation, both were identical.

Indeed, Pentalpha never argued, nor was any evidence introduced, that the numbers were any different; to the contrary, during summation at trial, Pentalpha's counsel *objected* when he thought SEB's counsel was going to argue that the number of infringing units might be different than that identified in the stipulation. See R.A. 64-65.

Because the number of units at both steps in the process was by stipulation identical, both of the theories of recovery support the same damages award. The damages awarded were based on the jury's finding of a reasonable royalty rate. See *Id.* at 32-36, 42-44. And, regardless of what happens with the inducement finding, that damages award should be upheld.

B. Even if the Court Were To Hold that Actual Knowledge of the Specific Patent Is Required, the Court Should Still Affirm Because the Jury Expressly Found Pentalpha Had Actual Notice of SEB's Patent.

This entire appeal is based on a false hypothetical. Pentalpha asks this Court to hold that actual knowledge of a specific patent is necessary for liability under § 271(b), and the premise of that request is

that there is no jury finding of actual knowledge. That premise is false.

During the jury charge, the court instructed the jury on willfulness. It instructed as follows:

> Willfulness *must* be proven by clear and convincing evidence showing that, one, *Defendants had actual knowledge of the Plaintiff's patent*, and, two, Defendants had no reasonable basis for believing, A, that the deep fryers did not infringe Plaintiff's patent, or, B, that the Plaintiff's patent was invalid.
>
> In making the determination as to willfulness, you must consider the totality of the circumstances.
>
> The totality of the circumstances comprises a number of factors, which include, but are not limited to, whether Defendants intentionally copied the product covered by Plaintiff's patent, whether the Defendant exercised due care to avoid infringing the patent, whether the Defendant relied on competent legal advice, and the Defendants' behavior as a party to the litigation.

R.A. 30-31 (emphasis added).

Juries are, of course, "presumed to follow the court's instructions." *CSX Transp., Inc.* v. *Hensley*, 129 S. Ct. 2139, 2141 (2009) (per curiam). The verdict form, in turn, had two questions on willfulness. One asked if willfulness was proven with respect to Pentalpha's first deep fryer, and the second asked if willfulness was proven as to the second deep fryer.

These two time periods span the entire time of accused infringing and inducing infringement activity.

The jury answered "yes" to both questions.[28] As a result, the jury necessarily found, as a factual matter—by clear and convincing evidence no less—that "*[d]efendants had actual knowledge of the Plaintiff's patent.*"

Accordingly, any error in the jury instructions was harmless, see *Mitchell* v. *Esparza*, 540 U.S. 12 (2003); 28 U.S.C. § 2111, and regardless of the answer to the question presented, the Court should affirm the judgment below.

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[28] On a post-trial motion, the district court held that its willfulness instruction did not comply with the Federal Circuit's subsequent modification of the legal standard for willfulness in *Seagate*, and so set aside its earlier award of enhanced damages and attorney's fees. *SEB S.A.* v. *Montgomery Ward & Co.*, 2008 WL 450416, at *1. That legal conclusion does nothing to undermine the jury's factual finding that Pentalpha had actual knowledge of SEB's patent.

CONCLUSION

The judgment should be affirmed.

Respectfully submitted,

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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SEB, S.A.,

Plaintiff,

v. 99 CIV. 9284 (SCR)

MONTGOMERY WARD & CO., INC., GLOBAL-TECH APPLIANCES, INC., and PENTALPHA ENTERPRISES, LTD.,

Defendants.

---------- x

U.S. Courthouse
White Plains, N. Y.
April 17-21, 2006

Jury Trial Before: HON. STEPHEN C. ROBINSON,
U.S. District Judge

* * *

JURY CHARGE AS READ TO THE JURY BY JUDGE STEPHEN C. ROBINSON

[961] THE COURT: Great. Please be seated.

Ladies and gentlemen, you are about to enter your final duty, which is to decide the fact issues in the case. Before you do that, I will instruct you on the law. You must pay close attention to me now, and I will go as slowly as I can and be as clear as possible.

First, let me also just note for you, you don't need to take notes of this, because I will actually give you a hard copy of it or a couple of hard copies to take into your jury deliberations.

I told you at the very start of the trial that your principal function during the taking of testimony would be to listen carefully and observe each witness testifying. It has been obvious to me and to counsel that you have faithfully discharged this duty. Your interest never flagged, and it is [962] evident that you followed the testimony with close attention.

I ask you now to give me that same careful attention as I instruct you as to the law.

You have now heard all of the evidence in the case, as well as the final arguments of the lawyers for the parties. My duty at this point is to instruct you as to the law. It is your obligation to accept these instructions of law and apply them to the facts as you determine them, just as it has been my duty to preside over the trial and decide what testimony and evidence is relevant under the law for your consideration.

On these legal matters, you must take the law as I give it to you. If any attorney has stated a legal principle different from any that I state to you in my instructions, it is my instructions that you must follow.

You should not single out any instruction alone as stating the law, but you should consider my instructions as a whole when you retire to deliberate in the jury room.

You should not, any of you, be concerned about the wisdom of any rule that I state. Regardless of any

opinion that you may have as to what the law may be, or ought to be, it would violate your sworn duty to base a verdict upon any other view of the law than that which I give you.

Your final role is to pass upon and decide the fact issues that are in this case. You, the members of the jury, [963] are the sole and exclusive judges of the facts. You pass upon the weight of the evidence; you determine the credibility of the witnesses; you resolve each—I'm sorry—you resolve such conflicts as there may be in the testimony, and you draw whatever reasonable inferences you decide to draw from the facts as you have determined them.

I shall later discuss with you how to pass upon the credibility, or believability, of witnesses.

In determining the facts, you must rely upon your own recollection of the evidence. What the lawyers have said in their opening statements, in their closing arguments, or in their objections is not evidence. Moreover, you should bear in mind that a question put to a witness is never evidence. It is only the answer which is evidence. But you may not consider any answer that I directed you to disregard or that I directed struck from the record. Do not consider such answers.

Finally, nothing I may have said during the trial or may say during these instructions with respect to a fact matter is to be taken in substitution of your own independent recollection. What I say is not evidence.

The evidence before you consists of the answers given by the witnesses, the testimony they gave, as you recall it, and the exhibits that were received in evidence, and any fact that this Court has taken judicial notice of, [964] and any stipulation between the parties. You may also consider the stipulations of the parties as evidence.

Since you are the sole and exclusive judges of the facts, I do not mean to indicate any opinion as to the facts or what your verdict should be. The rulings I have made during the trial are not any indication of my views of what your decision should be as to whether or not the Plaintiff has proven its case by a preponderance of the evidence.

I also ask you to draw no inference from the fact that upon occasion I asked questions of certain witnesses. These questions were intended only for clarification or to expedite matters, and certainly were not intended to suggest any opinions on my part as to the verdict you should render, or whether any of the witnesses may have been more credible than any other witnesses. You are expressly to understand that the Court has no opinion as to the verdict you should render in this case.

As to the facts, ladies and gentlemen, you are the exclusive judges. You are to perform the duty of the finding—strike that. Let me start again. You are to perform the duty of finding the facts without bias or prejudice to any party. Your verdict must be based

solely upon the evidence developed at trial or the lack of evidence.

It would be improper for you to consider, in reaching your decision as to whether the plaintiffs have [965] sustained their burden of proof, any personal feelings you may have about a party's or witness's race, religion, national origin, age or sex.

It would be equally improper for you to allow any feelings you might have about the nature of the law alleged to have been violated to interfere with your decision-making process.

To repeat, your verdict must be based exclusively upon the evidence or the lack of evidence in the case.

It is the duty of the attorney for each side of a case to object when the other side offers testimony or other evidence which the attorney believes is not properly admissible. Counsel also have the right and the duty to ask the Court to make rulings of law and to request conferences at the side bar out of the hearing of the jury. All those questions of law must be decided by me, the Court.

You should not show any prejudice against any attorney or his client because the attorney objected to the admissibility of evidence, asked for a conference or side bar out of the hearing of the jury, or asked the Court for a ruling on the law.

As I already indicated, my rulings on the admissibility of evidence do not indicate any opinion about the weight or effect of such evidence. You are the sole

judges of the credibility of all witnesses and the weight and [966] effect of all evidence.

There are two types of evidence which you may properly use in deciding whether the Defendants are liable to the Plaintiffs.

One type of evidence is called direct evidence. Direct evidence is where a witness testifies to what he or she saw, heard, or observed. In other words, when a witness testifies about what is known to him or her of his or her own knowledge, by virtue of his or her own senses, what he or she sees, feels, touches or hears, that's called direct evidence.

Circumstantial evidence is evidence which tends to prove a disputed fact by proof of other facts. There is a simple example of a circumstantial evidence—strike that. There is a simple example of circumstantial evidence which is often used in this courthouse.

Assume that when you came into the courthouse this morning the sun was shining and it was a nice day. Assume that the courtroom blinds were drawn and you could not look outside. As you were sitting here, someone walked in with an umbrella which was dripping wet. Somebody else then walked in with a raincoat which was also dripping wet. Now, you cannot look outside of the courtroom and you cannot see whether or not it is raining, so you have no direct evidence of that fact. But, on the combination of facts which I have asked you to assume, it would be reasonable and logical for [967] you to conclude that it had been raining.

That is all there is to circumstantial evidence. You infer on the basis of reason and experience and common sense from an established fact the existence or the nonexistence of some other fact.

Circumstantial evidence is of no less value than direct evidence; for, it is a general rule that the law makes no distinction between direct and circumstantial evidence, but simply requires that, before returning a verdict for the plaintiffs, the jury must be satisfied that they have proven their case by a preponderance of the evidence.

During the trial you have heard the attorneys use the term "inference," and in their arguments they may—they have asked you to infer, on the basis of your reason, experience and common sense, the existence—I'm sorry. Let me start that over again.

During the trial you have heard attorneys use the term "inference," and in their arguments they have asked you to infer, on the basis of your reason, experience and common sense, from one or more established facts, the existence of some other fact.

An inference is not a suspicion or a guess. It is a reasoned, logical conclusion that a disputed fact exists on the basis of another fact which has been shown to exist.

There are times when different inferences may be [968] drawn from facts, whether proved by direct or circumstantial evidence. The Plaintiff asks you to draw one set of inferences, while the Defendants ask

you to draw another. It is for you, and you alone, to decide what inferences you will draw.

The process of drawing inferences from facts in evidence is not a matter of guesswork or speculation. An inference is a deduction or conclusion which you, the jury, are permitted to draw—but not required to draw—from the facts which have been established by either direct or circumstantial evidence. In drawing inferences, you should exercise your common sense.

So while you are considering the evidence presented to you, you are permitted to draw, from the facts which you find to be proven, such reasonable inferences as would be justified in light of your experience.

The evidence in this case consists of the sworn testimony of the witnesses, and the exhibits received in evidence. You should consider all of the exhibits received in evidence, regardless of which party introduced a particular exhibit.

Exhibits which have been marked for identification but do not—but not received may not be considered by you as evidence. Only those exhibits received may be considered as evidence.

[969] Similarly, you are to disregard any testimony when I have ordered it to be stricken. As I indicated before, only the witnesses' answers are evidence, and you are not to consider a question as evidence. Similarly, statements by counsel are not evidence.

You should consider the evidence in light of your own common sense and experience, and you may draw reasonable inferences from the evidence.

Anything you may have seen or heard about this case outside the courtroom is not evidence and must be entirely disregarded.

Let me emphasize that a lawyer's question is not evidence. At times, a lawyer may have incorporated into a question a statement which assumed certain facts to be true and asked the witness if the statement was true. If the witness denies the truth of a statement, and if there is no other evidence in the record proving that the assumed fact is true, then you may not consider the fact to be true simply because it was contained in the lawyer's question.

A good example of this is the lawyer's question of a witness: "When did you start stealing televisions?" You would not be permitted to consider as true the assumed fact that the witness ever stole televisions, unless the witness indicated that he or she had, or unless there is some other evidence in the record that the witness had stolen [970] televisions.

In short, questions are not evidence; answers are.

When you have an opportunity—I'm sorry, strike that.

You have had an opportunity to observe all of the witnesses. It is now your job to decide how believable each witness was in his or her testimony. You are the

sole judges of the credibility of each witness and of the importance of his testimony.

It must be clear to you by now that you are being called upon to resolve various factual issues in the face of the very different pictures painted by the Plaintiffs and the Defendants which cannot be reconciled. You will now have to decide where the truth lies, and an important part of that decision will involve making judgments about the testimony of the witnesses you have listened to and observed. In making those judgments, you should carefully scrutinize all of the testimony of each witness, the circumstances under which each witness testified, and any other matter in evidence which may help you decide the truth and the importance of each witness's testimony.

Your decision whether or not to believe a witness may depend on how that witness impressed you. Was the witness candid, frank and forthright? Or did the witness seem as if he or she was holding—I'm sorry—hiding [971] something, being evasive or suspect in some way?

How did the way the witness testified on direct examination compare with how the witness testified on cross-examination?

Was the witness consistent in his or her testimony or did they contradict themselves?

Did the witness appear to know what he or she was talking about or did the witness strike you as

someone who was trying to report his or her knowledge accurately?

How much you choose to believe a witness may be influenced by the witness's bias. Does the witness have some incentive, loyalty or motive that might cause him or her to shade the truth, or does the witness have some bias, prejudice or hostility that may have caused the witness, consciously or not, to give you something other than a completely accurate account of the facts he or she testified to?

Even if the witness was impartial, you should consider whether the witness had an opportunity to observe the facts he or she testified about, and you should consider the witness's ability to express himself or herself. Ask yourself whether the witness's recollection of the facts stands up in light of all of the other evidence.

In other words, what you must try to do in deciding credibility is to size a person up in light of his or her [972] demeanor, the explanations given, and in light of all the other evidence in the case, just as you would in any other important matter where you are trying to decide if a person is truthful, straightforward and accurate in his or her recollection. In deciding the question of credibility, remember that you should use your common sense, your good judgment and your experience.

If you find some or all of a witness's testimony not to be worthy of credit, you may choose to disregard

that entire witness's testimony or reject just the portions that you deem not to be worthy of credibility.

A witness may be discredited or impeached by contradictory evidence, or by evidence that at some other time the witness has said or done something, or has failed to say or do something, which is inconsistent with the witness's present testimony.

If you believe any witness has been impeached and thus discredited, it is your exclusive province to give the testimony of that witness such credibility, if any, as you might think it deserves.

If a witness is shown knowingly to have testified falsely concerning any material matter, you have the right to distrust such witness's testimony in other particulars, and you may reject all of the testimony of that witness or give it such credibility as you think it deserves.

[973] The rules of evidence do not ordinarily permit witnesses to testify as to opinions or conclusions. An exception to this rule exists as, as to those whom we call expert witnesses. Witnesses, who by education and experience, have become expert in some art, science, profession or calling, may state their opinions as to relevant and material matters in which they profess to be expert, and they may also state their reasons for the opinion.

You should consider each expert opinion received in evidence in this case and give it the weight—excuse me—and give it such weight as you may think

it deserves..If you decide that the opinion of an expert is not based upon sufficient education or experience, or if you should conclude that the reasons given in support of the opinion are not sound, or if you feel that it is outweighed by other evidence, you may disregard the opinion freely.

A witness may be permitted to testify to an opinion on those matters about which he has special knowledge, skill, experience and training. Such testimony is presented to you on the theory that someone who is experienced and knowledgeable in the field can assist you in understanding the evidence or in reaching an independent decision on the facts. In weighting this testimony, you may consider the witness's qualifications, his opinions, the reasons for [974] testifying, as well as all of the other considerations that ordinarily apply when you are deciding whether or not to believe a witness's testimony.

You may give the opinion testimony whatever weight, if any, you find it deserves in light of all the evidence in this case. You should not, however, accept opinion testimony merely because I allowed the witness to testify concerning his opinion. Nor should you substitute it for your own reason, judgment and common sense. The determination of the facts in this case rests solely with you.

You've heard testimony during the trial that witnesses may have discussed the facts of the case and their testimony with their lawyers before the witnesses appeared in court. Although you may

consider that fact when you are evaluating a witness's credibility, I should tell you that there is nothing either unusual or improper about a witness meeting with lawyers before testifying so that the witness can be aware of the subjects he or she will be questioned about, focus on those subjects, and have the opportunity to review relevant exhibits before being questioned about them. Such consultation helps conserve your time and the Court's time. In fact, it would be unusual for a lawyer to call a witness without such consultation.

Again, the weight you give to the fact or the nature of the witness's preparation for his or her testimony [975] and what inferences you draw from such preparation are matters completely within your discretion.

We have, among the exhibits received in evidence, at least one document that has been redacted. "Redacted" means that part of the document was taken out. You are to concern yourselves only with the part of the item that has been admitted into evidence. You should not consider any possible reason why the other part of it has been deleted.

This is a civil case, and in this case the Plaintiff has the burden of proving the elements of their case to your satisfaction by a preponderance of the credible evidence. A preponderance of the evidence means such evidence as, when considered and compared to what is opposed to it, has more convincing force and

produces in your mind the belief that what is sought to be proved is, more likely than not, true.

It is often said that the evidence is to be weighed on scales, and if you find that the evidence on one—on any issue of fact weighs equally in favor of the plaintiffs [sic] and the Defendants, that is, that the scales are evenly balanced, then the Plaintiff has failed to satisfy its burden on that issue. However, if the scales tilt, however slightly, in favor of the Plaintiff, that would constitute a preponderance of the evidence, and the Plaintiff would have satisfied its legal burden.

[976] A preponderance of the evidence does not mean the greater number of witnesses, or the greater length of time taken, or the greater number of documents introduced by either side. It refers to the quality of the evidence as you regard it, the weight, the significance, and the effect it has on you.

In determining whether a fact has been proven by a preponderance of the evidence, you may, unless otherwise instructed, consider the testimony of all witnesses, regardless of who called them, and all exhibits received in evidence, and the stipulations, regardless of who produced them.

The preponderance of the evidence does not require so much proof as to produce an absolute certainty or proof beyond a reasonable doubt. The slight tipping of the scales is enough.

In this case the Plaintiff has to prove willfulness by clear and convincing evidence. I will explain the substance of the willfulness issue later. Now I would like to explain what the term "clear and convincing evidence" means.

The bathroom? Why don't you take a brief break, give us all a chance to stand up?

We will resume in a minute.

(Juror Number 6 not present in the courtroom)

[977] (Pause)

(Jury present in the courtroom)

THE COURT: In this case the Plaintiff has to prove willfulness by clear and convincing evidence. I will explain the substance of the willfulness issue later. Now I would like to explain what the term "clear and convincing evidence" means.

Clear and convincing evidence is a more exacting standard than proof by a preponderance of the evidence, where, with respect to proof by a preponderance of the evidence, you need believe only that a party's claim is more likely true than not true. On the other hand, clear and convincing proof is not as high a standard as the burden of proof applied in a criminal case, which is proof beyond a reasonable doubt.

Clear and convincing proof leaves no substantial doubt in your mind. It is proof that establishes in your mind, not only the proposition at issue—strike that.

It is proof that establishes in your mind not only the proposition at issue is probable, but also that it is highly probable. It is enough if the party with the burden of proof establishes his or her claim beyond any substantial doubt. He or she does not have to dispel every reasonable doubt. It is for you to decide what is a substantial doubt.

This is a patent case. The patent involved in this [978] case relates to deep fryers. During the trial, the parties have offered testimony to familiarize you with this technology.

The United States Patent and Trademark Office has granted a patent to Ernest Leiros for an invention relating to this technology. SEB S.A. is the owner of that patent, which is identified by the Patent Office by Number 4,995,312, which may be called "the '312 patent" or "the patent in suit."

SEB is a holding company which has many subsidiaries. One of its subsidiaries is T-Fal Corporation, which sells deep fryers in the United States. Other subsidiaries manufacture the products.

Global-Tech also is a holding company which has many subsidiaries. One of its subsidiaries is Pentalpha Enterprises, which sold deep fryers. Other subsidiaries also sell deep fryers and another subsidiary manufactures the products.

On August 27th, 1999, SEB filed this action against Global-Tech, Pentalpha and Montgomery Ward, alleging that they infringed Plaintiff's patent.

Since then, Montgomery Ward has gone out of business. As a result, Global-Tech and Pentalpha are the only Defendants remaining in this case.

A valid United States patent gives the owner the right to exclude others from making, using, offering to sell [979] or selling the patented invention within or importing the patented invention into the United States.

A company is said to be infringing on claims of a patent when they, without permission from the patent owner, make, use, import, offer to sell or sell the patented invention, as defined by the claims, within the United States before the term of the patent expires.

A patent owner that believes someone is infringing on his or her exclusive rights under a patent may bring a lawsuit to stop the alleged infringing acts and recover damages. The patent owner has the burden to prove infringement of the claims of the patent. The patent owner also has the burden to prove damages caused by that infringement, which are adequate to compensate for the infringement. I will tell you more about the way you may calculate damages in a few minutes.

A person sued for allegedly infringing a patent can deny infringement and can also defend by providing—I'm sorry. Let me start that sentence over.

A person sued for allegedly infringing a patent can deny infringement, and can also defend by

proving the asserted claims of the patent are invalid or unenforceable. In this case, Defendants do not challenge the validity or enforceability of the patent in suit.

In evaluating infringement, each claim is to be [980] evaluated independently. I will now briefly explain the parties' basic contentions in more detail.

In this case Plaintiff contends that Defendants have offered for sale, imported and sold in the United States deep fryers that infringe Claim 1 of the '312 patent. Plaintiff also contends that it has been injured by that infringement and is entitled to recover damages for that infringement.

Plaintiff has the burden of proving that the Defendants infringed the '312 patent by a preponderance of the evidence. That means that Plaintiff must show that it is more likely than not that the Defendants' deep fryers infringed the patent. In this case, Plaintiff contends that two versions of the Defendants' deep fryers infringed the '312 patent. Both versions have been distributed under various trademarks, including Sunbeam, Oster, Chef's Mark and Admiral.

There are two ways in which a patent claim can be directly infringed. First, a claim can be literally infringed. Second, a claim may be infringed under what is called the doctrine of equivalents, which I will address shortly.

Defendants deny that their deep fryers literally infringed the '312 patent. Defendants contend that they did not infringe the '312 patent because they did not make any [981] sales within the United States. Defendants also contend that they did not induce infringement of the '312 patent because they relied upon an opinion from their counsel that accused—that the accused deep fryers were not infringing.

To determine whether the Plaintiff can prevail against the Defendants on its claim for patent infringement, you may need to consider three distinct types of questions. First, whether any of the defendants' deep fryers infringed Plaintiff's patent. Second, whether the Defendants engaged in any act that constituted patent infringement. Third, whether Plaintiff is entitled to recover any damages.

In this case there are two corporate Defendants. The parties have stipulated and I instruct you that Global-Tech, Pentalpha, Pentalpha Hong Kong, and Wing Shing products are all liable for the other's acts.

Before we go further, let me define for you some terms you have heard throughout the trial.

You have heard several witnesses make reference to the claims in the '312 patent. Claims are the numbered sentences appearing at the end of the patent and which define the invention. The words of the claims define the scope of the patent owner's exclusive rights during the life of the patent.

Some witnesses have referenced the specification of the '312 patent. The specification is the information that [982] appears in the patent and concludes with one or more claims. The specification includes the written text, the claims, and the drawings. In the specification, the inventor sets forth a description telling what the invention is, how it works, and how to make and use it so as to enable others skilled in the art to do so—I'm sorry. Hold on a second. Let me read that sentence over again.

In the specification, the inventor sets forth a description telling what the invention is, how it works, and how to make and use it so as to enable others skilled in the art to do so and what the inventor believed at the time of filing to be the best way of making his or her invention.

Some witnesses have used the term "F.O.B." F.O.B. or free on board is a method of shipment whereby goods are delivered at a designated location, usually a transportation depot, at which legal title and thus the risk of loss passes from seller to buyer.

You have also heard witnesses make reference to individuals, quote, "ordinarily skilled in the art," close quote. That phrase "ordinarily skilled in the art" refers to the level of experience, education and/or training that those individuals who work in the area of the invention possess.

Before you decide whether the Defendants have infringed the claims of the Plaintiff's patent, you will have to understand the patent claims.

[983] The only patent claim involved here is Claim 1, which begins at Column 5, Line 9 of the Plaintiff's patent.

The claims are word pictures intended to define, in words, the boundaries of the invention described and illustrated in the patent. Only the claims of the patent can be infringed. Neither the written description, nor the drawings of a patent can be infringed. To prove patent infringement, Plaintiff need only establish by a preponderance of the evidence that Claim 1 is infringed.

To decide the question of infringement, you must first understand what the claims of the patent cover, that is, what they prevent anyone else from doing.

In this case Plaintiff and Defendants agree about the meaning of several parts of the claims. Plaintiff and Defendants do not agree about the meaning of other parts of the claims. It is my duty to interpret these contested words and groups of words for you.

I will now tell you the meaning of the following words and phrases in Claim 1. You must use these meanings in your deliberations concerning infringement. First, let me read what Claim 1 says.

Claim 1 of the '312 patent recites, "An electrical deep fryer comprising a metal pan having a wall, and an electrical heating resistor that heats said wall directly by conductive heating to a temperature higher than 150 degrees [984] Celsius, said pan being surrounded by a plastic skirt, wherein said skirt is of

plastic material which does not continuously withstand a temperature of 150 degrees Celsius, said skirt entirely surrounding the"—literal wall—I'm sorry. Let me state that again. "Said skirt entirely surrounding the lateral wall and the base of the pan and being separated from said wall and said base by an air space of sufficient width to limit the temperature of the skirt to a value which is compatible with the thermal resistance of the plastic material of the skirt, said skirt being completely free with respect to the pan with the exception of a ring which joins only the top edge of the skirt to the top edge of the pan and to which the latter is attached, said ring being of heat-insulating material which is continuously resistant to the temperature of the top edge of the pan."

The claims of the '312 patent do not exclude all connections between the skirt and the metal panel.

The term "completely free" in Claim 1 means completely free from the thermal bridges between the pan and the skirt. It does not mean that the skirt is free from any other contacts with the pan. The '312 patent describes other points of contact between the skirt and the metal pan, such as a heating element, a thermostat and a stabilizing element at the bottom. These points of contact in the '312 patent do not create thermal bridges. Claim 1 of the '312 patent is [985] construed to cover a deep fryer with a thermally insulated stabilizing element at the bottom of the hot oil pan.

If you find that the defendants' deep fryers include all of the elements in Claim 1, the fact that defendants' deep fryers might include additional components would not avoid literal infringement of the claim.

I will now instruct you as to the rules you must follow when deciding whether the Plaintiff has proven that the Defendants infringed any of the claims of the '312 patent.

The patent law gives the owner of a valid patent the right to exclude others from making, using, offering for sale, importing or selling the patented invention during the term of the patent. The patent law provides that any person or businesses—strike that. Let me read that again.

The patent law provides that any person or business entity which, without the patent owner's permission, makes, uses, offers for sale or sells within the United States or imports into the United States any products that are covered by at least one claim of a patent before the patent expires, infringes the patent. Here, Plaintiff alleges that Defendants' products infringe Claim 1 of Plaintiff's U.S. Patent '312.

A patent may be infringed directly or indirectly. Direct infringement results if the accused deep fryer is [986] covered by at least one claim of the patent. Indirect infringement results if the Defendants induce another to infringe a patent.

In this case, Plaintiff asserts that Defendants have directly infringed the '312 patent. Defendants are liable for directly infringing Plaintiff's patent if you find that Plaintiff has proven by a preponderance of the evidence that the Defendants have made, used, offered to sell, or sold the invention defined in Claim 1 of the '312 patent.

An offer to sell in the United States occurs when negotiations in the United States can be construed as an offer to enter into a binding contract, including a price term. Any negotiations that occur outside of the United States are not relevant to the inquiry of what occurred in the United States.

In determining whether a sale occurred in the United States, you may consider a variety of factors. Among the factors you may consider is where the parties conclude their negotiations and agree to mutually acceptable terms including a price. You may consider where the products were shipped from and where the products were shipped to. You may also consider the F.O.B. terms.

The evidence in this case is that the goods were delivered F.O.B. Hong Kong or China. Simply because a product is delivered F.O.B. or free on board outside of the [987] United States, however, does not necessarily mean that a sale has not taken place inside of the United States.

A person can directly infringe a patent without knowing that what it is doing is an infringement of the patent. It may also infringe even though they

believe in good faith that what it is doing is not an infringement of any patent.

Plaintiff also asserts that Defendants have induced infringement. To show inducement, Plaintiff must prove by a preponderance of the evidence that someone has directly infringed the patent. If there is no direct infringement by anyone, Defendants have not induced infringement.

If you find that someone has directly infringed the '312 patent, it is not necessary to show that the Defendants themselves have directly infringed, if Plaintiff proves by a preponderance of the evidence that Defendants actively and knowingly aided and abetted that direct infringement. Plaintiff must show that the Defendants actually intended to cause the acts that constitute direct infringement and that the Defendants knew or should have known that their actions would induce actual infringement.

It is not necessary to show that Defendants have directly infringed as long as you can find that someone to whom the Defendants have sold deep fryers has directly infringed. If there is no direct infringement by anyone, [988] Defendants have not induced infringement. Defendants cannot be liable for inducing infringement if they had no reason to be aware of the existence of the '312 patent.

If you find that someone has directly infringed the '312 patent and that the Defendants knew or should have known that its actions would induce direct infringement, you may find that Defendants

induced another to infringe Plaintiff's patent by supplying the infringing deep fryers with the knowledge and intent that their customers, in this case, Sunbeam, Montgomery Ward and Fingerhut, would directly infringe by selling the deep fryers in the United States.

There are two ways in which a product can infringe a patent. First, a product can literally infringe a patent. Second, a product can infringe the patent under the doctrine of equivalents.

Defendants sold two kinds of deep fryers, the original deep fryer and the modified deep fryer. Plaintiffs claim—Plaintiff claims that the original deep fryer infringes literally. Plaintiff further claims that the modified deep fryer infringes under the doctrine of equivalents. Excuse me. Plaintiff admits that Defendants' modified deep fryer does not literally infringe Claim 1 of the Plaintiff's patent.

To determine whether there is literal infringement, you must compare Defendants' original deep fryer with Claim 1 [989] of Plaintiff's patent, using my instructions as to the meaning of Claim 1.

Defendants' deep fryers literally infringe Claim 1 of the Plaintiff's patent if and only if Defendants' deep fryers contain each and every element of Claim 1. If defendants' deep fryers do not contain one or more elements recited in Claim 1, then defendants' deep fryers do not literally infringe Claim 1.

Your comparison must focus only on Claim 1; it may not rely on descriptions of the invention contained in other parts of the patent, such as the specification or the drawings, or on the Plaintiff's commercial product.

You may find that Defendants' deep fryers infringe a claim of the Plaintiff's patent even if not every element of that claim is literally present in the Defendants' deep fryers. However, to do so, you must find that there is an equivalent component in the Defendants' deep fryers for each element of the patent claim that is not literally present in the Defendants' deep fryer. This is called infringement under the doctrine of equivalents.

The test you should apply in determining if there is an equivalent component is whether one of ordinary skill in the art would consider that a component of defendants' deep fryers performs substantially the same function, in substantially the same way, to produce substantially the same [990] result compared to the corresponding element in the Plaintiff's patent.

Exact identity of function, way and result is not required; substantial identity is sufficient.

The question of whether a component of defendants' deep fryer is equivalent to the corresponding element in Plaintiff's claims is to be determined based on the knowledge of one of ordinary skill in the art as of the time of the alleged infringement, not when the patent application was filed or when the patent was issued.

In deciding whether there is infringement under the doctrine of equivalents, each element contained in a patent claim is important. Therefore, the question is whether Defendants' deep fryers contained an equivalent for each element of the claim. The question is not whether Defendants' products overall are equivalent to Plaintiff 's invention as a whole.

It is not necessarily—it is not necessary that any single component of the Defendants' deep fryers be equivalent to a particular element of the claimed invention. Two or more components of the Defendants' deep fryers may operate together to be an equivalent of a single element of the claimed invention. What is important is that there must be an equivalent for each element of the claim somewhere in the accused device.

[991] If you find that any element of Claim 1 of the patent is not present in the Defendants' deep fryers, either literally or equivalently, then Claim 1 is not infringed.

You should consider whether the substituted element represents a change that a person of ordinary skill in the art would have considered insubstantial at the time of the infringement. In determining whether the one or more components of the Defendants' deep fryers are equivalent to an element of the claimed invention, you should consider whether at the time of the infringement persons reasonably skilled in the art would have known of the

interchangeability of that component or those components with the element claimed in the patent claim.

Although the known interchangeability of the accused and claimed elements is not necessary in order to find infringement, known interchangeability is evidence that one of ordinary skill in the relevant art would have considered the change insubstantial.

It is important to note that there is nothing illegal about taking a patented product and redesigning it in a manner that avoids infringement of the patent.

When a potential infringer has actual notice of another patent's rights– strike that.

MR. DUNNEGAN: You misread that.

THE COURT: Let me start over again.

[992] When a potential infringer has actual notice of another's patent rights, he has an affirmative duty of due care not to infringe; that is, if you find by a preponderance of the evidence that Defendants infringed the Plaintiff's patent, either literally or under the doctrine of equivalents, then you must determine whether or not this infringement was willful.

Willfulness mist—sorry.

Willfulness must be proven by clear and convincing evidence showing that, one, Defendants had actual knowledge of the Plaintiff's patent, and, two, Defendants had no reasonable basis for believing, A,

that the deep fryers did not infringe Plaintiff's patent or, B, that the Plaintiff's patent was invalid.

In making the determination as to willfulness, you must consider the totality of the circumstances.

The totality of the circumstances comprises a number of factors, which include, but are not limited to, whether Defendants intentionally copied the product covered by Plaintiff's patent, whether the Defendants exercised due care to avoid infringing the patent, whether the Defendant relied on competent legal advice, and the Defendants' behavior as a party to the litigation.

Mere knowledge of the patent, coupled with the failure to obtain a legal opinion on the issue of [993] infringement, does not allow you, without more, to conclude that the Defendants willfully infringed the patent.

The mere fact that Defendants obtained an opinion of counsel does not necessarily dictate a finding that Defendants' infringement was not willful. What matters is the nature of that opinion and what effect it had on the Defendants' conduct. You may also consider whether the opinion addressed infringement of the claims at issue, and whether it came too late to be reasonably relied upon by the Defendants.

If you find that either version of the deep fryers sold by Defendants infringes Claim 1 of the patent in suit, you must determine the amount of damages to

be awarded Plaintiff for the infringement. The amount of those damages must be adequate to compensate Plaintiff for the infringement.

Your job in this case is to determine as a damage award what a reasonable royalty would have been. Once you determine what a reasonable royalty would have been, you must award the Plaintiff that reasonable royalty. You must consider the amount of injury suffered by the Plaintiff without regard to Defendants' gain or loss from the infringement.

Plaintiff has the burden of proving each element of its damages by a preponderance of the evidence. The fact [994] that I am instructing you as to a proper measure of damages should not be construed as intimating any view of the Court as to which party is entitled to prevail in this case. Instructions as to the measure of damages are given for your guidance in the event that you find the evidence in favor of the Plaintiff.

I will now explain how you should determine an appropriate damage award.

Getting close.

The date that Defendants first had notice of the patent is the date at which patent damages begin to be calculated. That date is in dispute here, and it is up to you to determine what that date is. Plaintiff has the burden of proof by a preponderance of the evidence the—I'm sorry. Strike that. Let me start again.

Plaintiff has the burden to prove by a preponderance of the evidence the date it gave notice. The date notice was given is the earliest of the date on which the Defendants became aware of the '312 patent, or the date on which Plaintiff communicated to Defendants a specific charge that the deep fryer infringed the '312 patent.

The date of notice may be inferred based upon marking of the patent number on substantially all of the deep fryer products it sold in the United States. If you find that Plaintiff did not mark substantially all of their deep [995] fryers with the patent number, the date Defendants had notice is July 10th, 1998, which is the date Defendants were added as parties to an action pending in the United States District Court against one of the Defendants' customers, Sunbeam Corp., involving the same patent.

I will now explain to you what a reasonable royalty is and how to calculate it.

The patent law specifically provides that the amount of damages that the Defendants must pay Plaintiff for infringing Plaintiff's patent may not be less than a reasonable royalty for the use that the Defendants made of Plaintiff's invention.

You must determine what a reasonable royalty would be for the infringing sales of these Defendants and their subsidiaries.

A royalty is a payment made to a patent owner in exchange for the right to make, use or sell the

claimed invention. A reasonable royalty is the royalty that would have resulted from a hypothetical negotiation between the Plaintiff and Defendants taking place at the time that the infringement began. You should also assume that both parties to the negotiation understood the patent to be valid and infringed by the products the licensee made, used or sold.

In determining the amount of a reasonable royalty, you may consider evidence on any of the following factors:

[996] Any royalties received by Plaintiff for the licensing of the Plaintiff's patent, providing—I'm sorry—proving or tending to prove an established royalty;

The rates paid by Defendants to license other patents comparable to the Plaintiff's patent;

Plaintiff's established policy and marketing program to maintain his right to exclude others from using the patented invention by not licensing others to use the invention, or by granting licenses under special conditions designed to preserve that exclusivity;

The commercial relationship between the Plaintiff and Defendants, such as whether or not they are competitors in the same territory, in the same line of business;

The effect of selling the patented product in promoting sales of other products of Defendants; the existing value of the invention to Plaintiff as a

generator of sales of his non-patented items, and the extent of such collateral sales;

The duration of the patent;

The established profitability of the product made under the patent, its commercial success, and its current popularity;

The utility and advantages of the patented invention over the old modes or devices, if any, that had been used for achieving similar results;

[997] The nature of the patented invention, the character of the commercial embodiment of it as owned and produced by Plaintiff, and the benefits to those who have used the invention;

The extent to which Defendants have made use of the invention, and any evidence that shows the value of that use;

The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions;

The portion of the profit that arises from the patented invention itself as opposed to profit arising from features unrelated to the patented invention, such as the manufacturing process, business risks, or significant features or improvements added by the Defendants.

Although the relevant date for the hypothetical reasonable royalty negotiation is the date that the

infringement began, you may consider in your determination of reasonable royalty damages any actual profits by Defendants after that time and any commercial success of the patented invention in the form of sales of the patented or infringed product after that time. You may only consider this information, however, if it was foreseeable at the time the infringement began.

It is your duty as jurors to consult with one [998] another and to deliberate with a view to reaching an agreement. Each of you must decide the case for himself or herself, but you should do so only after a consideration of the case with your fellow jurors, and you should not hesitate to change your opinion when convinced that it is erroneous.

Your verdict must be unanimous, but you are not bound to surrender your honest convictions concerning the effect or weight of the evidence for the mere purpose of returning a verdict or solely because of the opinion of other jurors. Discuss and weigh your respective opinions dispassionately, without regard to sympathy, without regard to prejudice or favor for either party, and adopt that conclusion which in your good conscience appears to be in accordance with the truth.

Again, each of you must make your own decision about the proper outcome of this case based on your consideration of the evidence and your discussions with your fellow jurors. No juror should surrender his

or her conscientious beliefs solely for the purpose of returning a unanimous verdict.

You are about to go into the jury room and begin your deliberations. If during those deliberations you want to see any of the exhibits, they will be sent into the jury room upon your request. Actually, we are going to send in all of the exhibits for you.

[999] If you want any of the testimony read, that can be also done. But please remember that it is always not easy to locate what you might want, so be as specific as you possibly can in requesting exhibits or portions of testimony which you want read.

Your requests for testimony, in fact, any communication with the Court, should be made to me in writing, signed by the foreperson, and given to one of the marshals.

Mr. Skolnik, will you be acting as the marshal?

THE CLERK: Yes, sir.

THE COURT: Mr. Skolnik will be acting as the marshal for you today.

And I will respond to any questions or requests you have as promptly as possible, either in writing or by having you return to the courtroom so I can speak with you in person. In any event, do not tell me or anyone else how the jury stands on the issue of the Plaintiff's claims until after a verdict is reached.

We will also send in with you a special verdict form which will guide you in the questions that you

have to answer in your deliberations. I will give you a copy—a couple of copies of the charge that I have just read, in case there's any portion of it that you want to review. We will send in the exhibits.

[1000] And the lawyers and I will be here. If you have any questions for us, write them in a note and send them out; if there is any testimony that you wish to have read.

Alrighty. Let me ask counsel to come to side bar.

(At side bar)

THE COURT: Counsel, do you have any changes or corrections to the charge as I read it?

MR. DUNNEGAN: Your Honor, I believe before the break you said that you were going to give an instruction concerning Exhibit 37, and I don't think that was given.

THE COURT: Which one?

MR. DUNNEGAN: The one about the total sales of all the deep fryers.

THE COURT: I will do that. Anything else?

MR. ZIVIN: Nothing, sir.

MR. DUNNEGAN: I just want to make sure that we have preserved all of our previous objections that we have made concerning the definition of sale, offer to sell, induced infringement.

THE COURT: Those are all preserved on the record.

MR. DUNNEGAN: Yes. Thank you.

MR. ZIVIN: And everything else is preserved. Thank you, Your Honor.

THE COURT: Yes, it is. Let's go.

(In open court)

[1001] THE COURT: Two more notes I will make for you, and then we will send you off to deliberate.

One is, with respect to Plaintiff's Exhibit—I believe it is Number 37, which is a—which Mr. Zivin referred to in his summation, that's a document that includes the number of deep fryers sold by the Plaintiffs and the net sales for those deep fryers for a number of years. You should know that that exhibit contains numbers for all deep fryers sold by the Plaintiffs, not just the cool wall fryers or the fryers at issue in this case, first.

Second, with respect to an overhead that Mr. Zivin used in his summation, which included the numbers of sales by Sunbeam, Fingerhut and Montgomery Ward, that document is not in evidence, but the numbers that were on the overhead were in evidence before you. So you can't get that document, but those numbers were in the record before you, and obviously if you want us to find them for you, we can.

Okay. We are going to send you off to deliberate. If you have any questions or comments or concerns, you should send a note out signed by your foreperson to Mr. Skolnik, and we will address them as soon as possible.

You can bring your pads in to deliberations with you. I think I may have told you before, but let me just tell you briefly how they should be used. Each individual's pads are for their own—for refreshing their own [1002] recollection, so you are not to show what you have written to anyone else or to tell them what you have written as a way to convince them that your recollection of the facts is stronger or more accurate than theirs. You can use it to refresh your own recollection as to the testimony that you have heard, and, again, if you need testimony read, be as specific as possible and we will get you out here to read it.

I don't mean to discourage you from doing that at all, other than to say it's not as quick a process as sometimes it might seem, so there will be a delay between when you make such a request and for us to find that testimony, but if you want any testimony read back, please feel free.

All right. Great. You may now begin to discuss the case and deliberate.

THE CLERK: Jurors, you can take everything with you and follow me into the jury room.

We are taking everything, right, Judge?

THE COURT: You can take everything back.

(Jury not present in the courtroom at 2:39 p.m.)

(Jury present in the courtroom at 2:40 p.m.)

THE COURT: Did you miss me?

JUROR #4: We don't have a verdict yet.

THE COURT: Ladies and gentlemen, there is one thing I forgot to tell you about your deliberations. Your [1003] deliberations must be conducted with all of you in the room together. If any of you has to leave for any reason, to go to the bathroom, to make a phone call, to smoke a cigarette, whatever it may be, all deliberations and discussions about the case must stop until that juror is back in the room with all of you. So that any discussion about the case must be had with all eight of you together. Okay?

That was it. Sorry about that. You are now done.

* * *

UNITED STATES DISTRICT COURT
SOUTHER [sic] DISTRICT OF NEW YORK

SEB, S.A., Plaintiff, v. MONTGOMERY WARD & CO., INC., GLOBAL-TECH APPLIANCES, INC. and PENTALPHA ENTERPRISES LTD., Defendants.	99 Civ. 9284 (SCR)

SPECIAL VERDICT FORM

1. Did the plaintiff show by a preponderance of the evidence that the first version of defendants' deep fryer literally infringed Claim 1 of the '312 patent?

   YES ✓ NO ____

   Proceed to Question 2.

2. Did the plaintiff show by a preponderance of the evidence that the modified version of the deep fryer infringed Claim 1 of the '312 patent under the doctrine of equivalents?

   YES ✓ NO ____

   Proceed to Question 3.

3. Did the plaintiff show by a preponderance of the evidence that the defendants have induced another to infringe plaintiff's patent with the first version of defendants' deep fryer?

YES ✓ NO ____

Proceed to Question 4.

4. Did the plaintiff show by a preponderance of the evidence that the defendants have induced another to infringe plaintiff's patent with the modified version of defendants' deep fryer?

YES ✓ NO ____

If you answered "NO" to Questions 1, 2, 3, and 4, then skip Questions 5-7 and have the foreperson sign and date the verdict form. If you answered "YES" to Questions 1 and/or 3, proceed to Question 5. If you answered "YES" to Questions 2 and/or 4, proceed to Question 6.

5. Did the plaintiff show by clear and convincing evidence that the defendants willfully infringed Claim 1 of the '312 patent by the first version of the defendants' deep fryer?

YES ✓ NO ____

Proceed to Question 7.

6. Did the plaintiff show by clear and convincing evidence that the defendants willfully infringed Claim 1 of the '312 patent by the modified version of the defendants' deep fryer?

YES ✓ NO ____

Proceed to Question 7.

7. What amount of damages in the form of a reasonable royalty do you find the plaintiff to have proven by a preponderance of the evidence with respect to deep fryers sold by Sunbeam, Fingerhut, and Montgomery Ward?

$ 3,600,000 (Sunbeam)

$ 540,000 (Fingerhut)

$ 510,000 (Montgomery Ward)

Please have the foreperson sign and date the verdict form.

/s/ Neil R. Hall — FOREPERSON

4/21/06 — DATE

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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SEB, S.A.,

Plaintiff,

v. 99 CIV. 9284 (SCR)

MONTGOMERY WARD & CO., INC., GLOBAL-TECH APPLIANCES, INC., and PENTALPHA ENTERPRISES, LTD.,

Defendants.

---------- x

U.S. Courthouse
White Plains, N. Y.
April 17-21, 2006

Jury Trial Before: HON. STEPHEN C. ROBINSON,
U.S. District Judge

* * *

OPENING STATEMENT OF MR. WILLIAM DUNNEGAN

[101] Now, let's go over those in a little bit more detail. Sales. Pentalpha didn't sell any deep fryers in the United States, because all these sales were consummated over in Hong Kong. Pentalpha sold the deep fryers in Asia under a term called F.O.B. That means free on board, a ship, in a port somewhere in the world, and the port in this case was either Hong Kong or one in China.

* * *

DIRECT EXAMINATION OF MR. GREGERS INFELD BY MR. NORMAN ZIVIN

[108] Q What is the general nature of SEB's business?

A SEB is a specialist in the appliance area and domestic cookware.

Q What kinds of appliances does it make?

[109] A It makes most small kitchen appliances, so, things you would find normally in the kitchen at home, deep fat fryers, mixers, toasters, and steam irons, and then on the other side there will be cookware, which would be mainly nonstick cookware.

Q What are the brands that it uses for sales in the United States market?

A Well, in the appliance field, it's Krups, it's Rowenta, T-Fal, and for cookware, it is T-Fal and now also All-Clad.

Q Does the Groupe SEB manufacture products?

A Yeah. Most of the manufacturing in Groupe SEB takes place in France, so there is a very large workforce in France.

There is also manufacturing in the U.S., quite a bit of manufacturing in the U.S., and a small bit of manufacturing in China.

Q At the time that you were the CEO of North America, was there any manufacturing in the other countries in the group other than in the United States?

A Yes. There was manufacturing in Mexico, United States and France.

* * *

[111] Q Were there any advantages of the cool wall fryers over other fryers that may have been on the market at that time?

A Yes. I mean clearly they—this was an innovation. They were safe as opposed to unsafe.

Q Why do you say they were safe as opposed to unsafe?

A I mean they--first of all, as you explained, you could touch them and you wouldn't be burned. The oil wouldn't spill even if the fryer tipped over, so you could actually make fries now in a safe way at home.

[112] Q What kinds of products were around in the market before the cool wall fryer was introduced?

MR. DUNNEGAN: Objection.

THE COURT: Overruled. You can answer.

A It was just open pots which were metallic, and they got extremely hot, and they were very dangerous, and a lot of accidents happened.

Q What companies made those kinds of pots that you just referred to?

A Presto.

Q Now, when you arrived in the United States in 1998, where was T-Fal getting the fryers from?

A We were manufacturing the fryers in Mexico. The fryers had originally been made in France. All of the research and development and the manufacturing for North America took place in Mexico.

Q And the T-Fal—was T-Fal selling those deep fryers in the U.S. market in 1998?

A They were.

Q Who, who were some of the customers that you had at that time?

A Well, we had a wide range of customers, because this was a new product, so we were selling them in the specialty stores, Bed Bath & Beyond, Linens 'n Things, Fingerhut, Target. We had a certain level of sales in Wal-Marts. It [113] was a broad, broad distribution.

Q Were there any geographic areas of the United States where you weren't selling the deep fryers at that time?

A No. We sold them everywhere.

Q At the—at that time, did the company have the manufacturing capability to make more deep fryers?

A Yes. There was very large capacity in Mexico, because we had foreseen this to be a very growing segment of the market.

Q And at that time, did you have the marketing capability of selling deep fryers to other customers?

A Yes.

Q Were your sales growing or declining at the time that you joined the U.S. operation in 1998?

MR. DUNNEGAN: Objection.

THE COURT: The sales with respect to what?

MR. ZIVIN: Sales of deep fryers, Your Honor.

THE COURT: Okay. You may answer.

A Yes. They had been growing over the past few years.

Q At that time, were the sales profitable?

A Yes.

* * *

[115] Q When you arrived in the United States to head T-Fal in 1998, was there any other competing cool wall deep fryer on the market?

A No. This was really an innovation which we had come up [116] with. This, this was an opportunity to penetrate a very big market, which is very difficult to get to unless you either have an innovation or a very low price. And SEB, with its workforce across Europe and North America, has a higher cost price, so

it has to base all its activity on innovation and producing quality products.

* * *

[121] Q Now, I believe you mentioned a little while ago that T-Fal sold some fryers to Wal-Mart; is that correct?

A That's correct.

Q And did T-Fal continue to sell fryers to Wal-Mart during the time that you were president of T-Fal?

A No. We sold for a period of time, and then, at a certain stage, they, they stopped selling our fryer.

[122] Q Do you have occasion or did you have occasion at that time to visit Wal-Mart's stores from time to time?

A I did.

Q And did you see any other brands of cool wall deep fryers there instead of your T-Fal deep fryers?

THE COURT: Tell us—if the answer to that is yes, tell us when these visits occurred.

A I cannot recollect the exact date, because I would walk into Wal-Mart on a regular basis, several times a month. We had a lot of different products that we had in Wal-Mart, so I would walk in, have a look, how they were laid out, what the pricing was, how our competition was doing.

And we had fryers in there for a period of time, and at a certain time Sunbeam took over the position we had in Wal-Mart.

THE COURT: And tell me when, when your visits were, and when you noticed that Sunbeam took over. I am not asking you for an exact date, but it was sometime in '91, '92, '93, 2001.

THE WITNESS: No. This was in—we're talking about '99 or 2000. I cannot recollect the exact dates.

THE COURT: Okay.

THE WITNESS: But it's about that time.

* * *

[125] Q During the period of time that you were with SEB, did they have any policy regarding licensing of patents?

A No. Because of the nature of SEB's manufacturing in Europe and North America, they never really licensed any of their patents to anybody. It was to keep their own plants going.

Q Just so the answer to that question is clear, I asked you if there was any policy. I believe you said no.

A No.

Q There was no policy?

A No. There was a decision, there was a clear decision never to license anything.

THE COURT: So there was a policy. The policy was you didn't license it.

THE WITNESS: Exactly.

THE COURT: Okay. Now it's clear.

THE WITNESS: Exactly.

* * *

[126] Q All right. So after you began to see the Sunbeam products on the market, what did you do with respect to T-Fal's prices, pricing for the deep fryers?

A Well, the Sunbeam products were undercutting the T-Fal products and that meant that we had to respond. We lost listings, which were basically the replacement in some of their stores, and we tried to give incentives to distribution to still continue with our product.

MR. DUNNEGAN: Objection. Move to strike as nonresponsive.

THE COURT: I am going to allow that answer. Go ahead.

Q How did you become responsive?

A Well, we were confronted with buyers telling us that there was a cheaper product, which did the same thing as ours, and that we would have to lower

our prices and give better terms in order to maintain or get the business.

* * *

DIRECT EXAMINATION OF MR. XAVIER SABOURIN BY MR. NORMAN ZIVIN

[181] Q What were some of the customers that you dealt with when you were in the United States in terms of the cool wall deep fryers?

A Many customers. You want me to give you some names?

Q Yes, give me some of the names.

MR. DUNNEGAN: Your Honor, objection, 402.

THE COURT: I am going to allow it, at least, at this point. Go ahead.

[182] Q You may answer.

A We were selling everything with a TV shopping channel, QVC. We were dealing with many different stores in the chains, like [3]Bonton, like [4]Dillards, like many company and so on. We were also dealing with national chains, like Sears, like J.C. Penney and so on; with mass national merchandisers also, Target, K-Mart, Wal-Mart, and so on.

* * *

[200] Q All right. We mentioned Sunbeam a while ago. Did SEB [201] take any action against Sunbeam as a result of their sale of deep fryers?

A Yes.

Q What action did you take?

A We sued them.

Q And what was the outcome of, of that suit? What happened?

A We were able to, to agree —what you call that —a gentlemen's agreement or something like this.

Q Was there a written agreement?

A Yes.

* * *

DIRECT EXAMINATION OF MR. JOHN SHAM BY MR. NORMAN ZIVIN

[268] Q Did you sell to Sunbeam fryers that had both the Sunbeam [269] and Oster trademarks?

A Yes.

* * *

[272] Q Now, when you made the products in the factory, did they [273] have the electrical connections that are shown on Exhibits 30-A and 30-B?

A Yes.

Q You can take a look at the electrical connections. Are those electrical connections for the U.S. market?

A North America, I will say.

Q Because they have a plug that fits into outlets in American and Canadian homes; is that right?

A This cord also say, yes, Canada.

Q Those wouldn't fit into the electrical outlets in Europe or Asia, would they?

A Not in Asia, but also maybe some part of other countries.

Q Okay. And how many, how many volts are the units of Exhibits 30-A and 30-B?

A I do not get your question. How many what?

Q Volts. What is the voltage of the electrical connections?

A The voltage is 120, I guess. 120 AC.

Q And 120 volts AC is the standard electrical voltage in North America; is that right?

A Based on my knowledge, yes.

Q For example, what is it in Hong Kong?

A In Hong Kong, it's 220 to 240.

Q So, these units wouldn't work in Hong Kong; is that [274] correct?

A Not if you plug directly. You use adapter, of course.

Q You would need a transformer or something; is that right?

A Yes.

* * *

[283] Q Does your company obtain a lot of patents?

A We obtain—when you say "a lot of," you know, compared to what number? Compared to my competitors in Hong Kong, China, we are leading in that field. If you compare it to people who pay huge company, they have a lot of people, and they obtain more patents than us.

* * *

[306] Q Isn't it true, Mr. Sham, that at the time in the late [307] 1990's, there was no income tax in China where your Dongguan Wing Shing factory was located, because you had a tax holiday of some sort?

A What years you're talking about?

Q The late 1990's.

A Late 1990's, I can't remember, but we started in '94, '95, and they have three years tax-free privileges, exemption, and I don't know if after '97, we—you know, that will be the case.

Q And at that time, the tax rate in Hong Kong was 15 percent on the income, right?

A 15 or 16. I can't remember.

* * *

[316] Q Now, did your company Dongguan Wing Shing make that product for Montgomery Ward?

A Yes.

Q And was it sold to Montgomery Ward by Pentalpha Enterprises?

A Yes.

Q Now, that unit has on it the trademark "Admiral"; is that correct?

A Yes.

Q When the product was manufactured, did it say "Admiral"?

A The product—I'm sorry.

Q Did you put the trademark "Admiral" on the product when you made it?

A Yes.

Q And you packaged it for Montgomery Ward's, and the packaging had said "Admiral"; is that correct?

A Yes.

Q And you supplied instruction manuals that came with the [317] product, in English; is that correct?

A Yes.

* * *

[329] Q I show you Exhibit 32, Mr. Sham. Can you tell us what that is?

A Well, this looks like a product under Chef's name, made by our company.

Q It looks like or it is?

A It's our tooling, our design.

Q Okay. And is that a product that your company sold to Fingerhut?

A I believe so.

* * *

CROSS-EXAMINATION OF MR. JOHN SHAM BY MR. WILLIAM DUNNEGAN

[358] Q After you had started making the tooling for the product, what did you do next in terms of the development of the deep fryer?

A Well, we definitely would need to have our patent attorney that do us the analysis and search and give us opinion if our product will be any—will have any infringement.

Q Mr. Sham, I would like to show you Exhibit C. What is Exhibit C, Mr. Sham?

A Exhibit C is the opinion that rendered from Mark Levy at that time, who was our patent attorney, about the deep fryer, back in August of 1997.

* * *

REDIRECT EXAMINATION OF MR. JOHN SHAM BY MR. NORMAN ZIVIN

[409] Q Sir, let me ask the question again. Is it your position in this case that your companies are not liable to SEB for patent infringement because you put "F.O.B. Hong Kong" or "China" on your invoices to American customers?

MR. DUNNEGAN: Objection.

THE COURT: Overruled.

A Yes.

Q Thank you.

* * *

[417] Q So you relied on an opinion which didn't say anything about the SEB patent for your understanding that you didn't infringe the SEB patent?

A At that time, how can we know?

Q I didn't ask you—

A It would depend on his opinion, to give us the opinion that our deep fryer will not infringe anybody else in the United States.

* * *

DIRECT EXAMINATION OF MR. CHARLES VAN HORN BY MS. WENDY MILLER

[482] Q And with respect to all these parts of the '312 patent, can you tell us what the invention is about?

A The invention is about a, a deep fryer, electrical deep fryer. It is fairly straightforward. It, it comprises a, a pan that's sort of the central, the central pan there that's going to be heated in, in—when it's used, it will include, for example, hot oil, when you heat up the hot oil. I don't know whether you can see it or not, but that numeral sort of at the bottom left-hand corner, 2, is the electrical heating element, so you energize that element and the pan heats up.

The other significant part of this particular device is the shell, or skirt. This is the outside casing, and it prevents—it creates a barrier between the hot pan and, and the user, so they don't come in contact. And as you can see, it creates sort of a gap between the pan and the wall, this air space between them, which has a certain [483] function in the context of, of this particular device.

And this, for example, is—shows you the inner section of the pan, which is illustrated by the numbers. It looks something like this. On the right-hand side, that's the hot pan, and then the left-hand side, that—it just tells me Element Number 3 is this wall, the wall that's going to feel cool to the user, so they're not going to come in contact with the, with the hot pan.

And then, the support between the skirt, or the outside wall, and the pan is that Element 5. It's a, a ring member, in this particular device, that provides a support for the pan, and a connection between the pan and the outside wall.

The significance of that particular member that bridges those two elements is that it is made of a material that's not going to melt or deform when it is in contact with this hot pan, whereas the outside wall is made of a, a lower melting point material, that's also cheaper. And that can be used to again prevent the physical contact with this hot pan.

* * *

REVISED STIPULATED FACTS READ INTO THE RECORD BY MR. NORMAN ZIVIN

[618] MR. ZIVIN: I will read the revised stipulated facts, including the prelude.

"The parties to this action hereby stipulate to the following facts 1-10 in this case.

"The parties stipulate to the truth of facts 11-13, although defendants do not stipulate to the admissibility of those facts.

"1. SEB S.A., SEB, is a French company.

"2. T-Fal Corporation is an indirect subsidiary of SEB with its principal place of business in West Orange, New Jersey.

[619] "3. SEB obtained U.S. Patent Number 4995312, which issued on February 26th of 1991.

"4. The 312 patent was assigned to SEB.

"5. Global-Tech is a British Virgin Islands corporation with its principal place of business in Hong Kong. Global-Tech was organized as and was formerly known as Wing Shing International, Limited. Global-Tech is traded on the New York Stock Exchange. This Court has jurisdiction over Global-Tech.

"6. Pentalpha is a Hong Kong corporation with its principal place of business in Hong Kong. Pentalpha is a wholly-owned subsidiary of Global-Tech. This Court has jurisdiction over Pentalpha.

"7. Montgomery Ward went into bankruptcy and no longer exists.

"8. Global-Tech owns—wholly-owned several—I'm sorry. Let me start over.

"8. Global-Tech wholly owns several subsidiaries, including: One, Global-Tech U.S.A., Inc. "Global-Tech U.S.A."; two, Pentalpha Enterprises, Limited, "Pentalpha;" three, Pentalpha Hong Kong, Limited, "Pentalpha Hong Kong;" four, Wing Shing Products BVI Company, Limited, "Wing Shing."

"Number 9. John Sham is the President of each company except Global-Tech U.S.A. Global-Tech U.S.A. is located in New York City and Brian Yuen is its president.

[620] "10. Defendants began selling the original deep fryer to Sunbeam in August of 1997. This deep fryer was sold under Sunbeam's trademarks Oster and Sunbeam.

"Number 11. In March 1998, SEB brought a lawsuit against Sunbeam in the United States District Court for the District of New Jersey, alleging that Sunbeam's sale of the original deep fryer infringed SEB's patent in suit.

"Number 12, a document attached as Exhibit A is an authentic copy of an agreement entered into between SEB and Sunbeam on or about July of 1999," and Exhibit A is trial Exhibit 26.

MR. DUNNEGAN: It is 26.

MR. ZIVIN: Twenty-six.

"Number 13. The Court in the Florida action entered summary judgment in favor of Sunbeam on its claim for indemnity for the $2 million payment made to SEB.

"14. Defendants sold approximately 312,736 deep fryers to Sunbeam Products, Inc.. [sic]

"15. Defendants sold approximately 46,418 deep fryers to Montgomery Ward.

"Number 16. Defendants sold approximately 47,604 deep fryers to Fingerhut."

* * *

ARGUMENT TO THE COURT BY MR. WILLIAM DUNNEGAN

[723] THE COURT: Yeah, but—okay. And that means that the jury could believe it or not. Look, you want me to create the argument for you? Here is the argument. There [724] are a zillion patent attorneys in New York City, where they work, too. They go to this guy in the middle of nowhere to do this patent search.

MR. DUNNEGAN: It's near Cornell.

THE COURT: And I spent eight years there. The middle of nowhere. Love it. Very happy. Undergrad. Law school. Met my wife there. Married my wife there. Love the place. Go there two or three times a year. Love the place.

Nonetheless, one could argue—I'm just saying it's a reasonable argument. I don't know what happened

I'm not in Mr. Sham's head. I don't know what he did. And fortunately, I'm not on the jury. I don't have to decide these issues. But it's a reasonable argument to say he intended to cover himself, he intended for the search to fail.

* * *

SUMMATION OF MR. NORMAN ZIVIN

[942] Mr. Sham's credibility as a witness is particularly important when it comes to his testimony regarding the number of units sold, and I'll tell you why that's important.

He testified in the Sunbeam trial, under oath, before a jury and a court in Florida, and we read this into the record, that Pentalpha sold 189,000 deep fryers to Sunbeam. It wasn't until March 30th, I believe, of this year, where he signed a statement in this case admitting that they sold 312,000 units.

I asked him on cross-examination whether, in fact, there were more. He denied it. My question is not evidence, as the Judge will tell you, as I think he's told you a number [943] of times. Mr. Sham denied it. He said there wasn't more. But when you look at the difference between his sworn testimony in the Sunbeam trial, which we read to you —

MR. DUNNEGAN: Objection, Your Honor.

THE COURT: What is the basis? I don't understand.

MR. DUNNEGAN: There is a stipulation as to the fact, and Mr. Zivin is trying to argue contrary to the stipulation.

MR. ZIVIN: Oh. No, I'm not, Your Honor.

THE COURT: I don't think he has yet, but I will keep that in mind.

Go ahead, Mr. Zivin.

MR. ZIVIN: When you look at the difference between his testimony in that case under oath and his testimony in this case under oath, I think you can find that Mr. Sham is not a credible witness.

* * *

United States Patent [19]

Leiros

[11] **Patent Number** **4,995,312**

[45] **Date of Patent:** **Feb. 26, 1991**

[54] **COOKING APPLIANCE WITH ELECTRIC HEATING**

[75] Inventor: **Ernest Leiros**, Dijon, France

[73] Assignee: **SEB S.A.**, Selongey, France

[21] Appl. No.: **574,529**

[22] Filed: **Aug. 28, 1990**

Related U.S. Application Data

[63] Continuation of Ser. No. 488,504, Mar. 5, 1990, abandoned, which is a continuation of Ser. No. 191,864, May 9, 1988, abandoned.

[30] **Foreign Application Priority Data**

May 13, 1987 **[FR]** France 87 06728

[51] **Int. Cl.**[5] **A47J 37/12**

[52] **U.S. Cl.** **99/411**; 99/403; 99/413; 219/436; 219/439

[58] **Field of Search** 99/403, 410, 411, 412, 99/413, 414–418; 126/381; 219/429, 436, 438, 439, 441

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Primary Examiner—Timothy F. Simone Attorney, Agent, or Firm—Young & Thompson

[57] **ABSTRACT**

A plastic skirt (**3**) surrounding a metal pan (**1**) is employed for external heat-insulation of electrically-heated cooking appliances and in particular deep fryers. The skirt (**3**) is of plastic material which does not continuously withstand the temperature of the pan wall (**1***a*, **1***b*) and is separated from this wall by an air space (**4**) of sufficient width to limit the temperature of the skirt (**3**). The skirt is completely free with respect to the pan (**1**) with the exception of a ring (**5**) which joins the top edge (**3***a*) of the skirt to the top

edge (1c) of the pan and to which this latter is attached. The ring (5) is of heat-insulating material which affords continuous resistance to the temperature of the top edge (1c) of the pan (1).

13 Claims, 2 Drawing Sheets

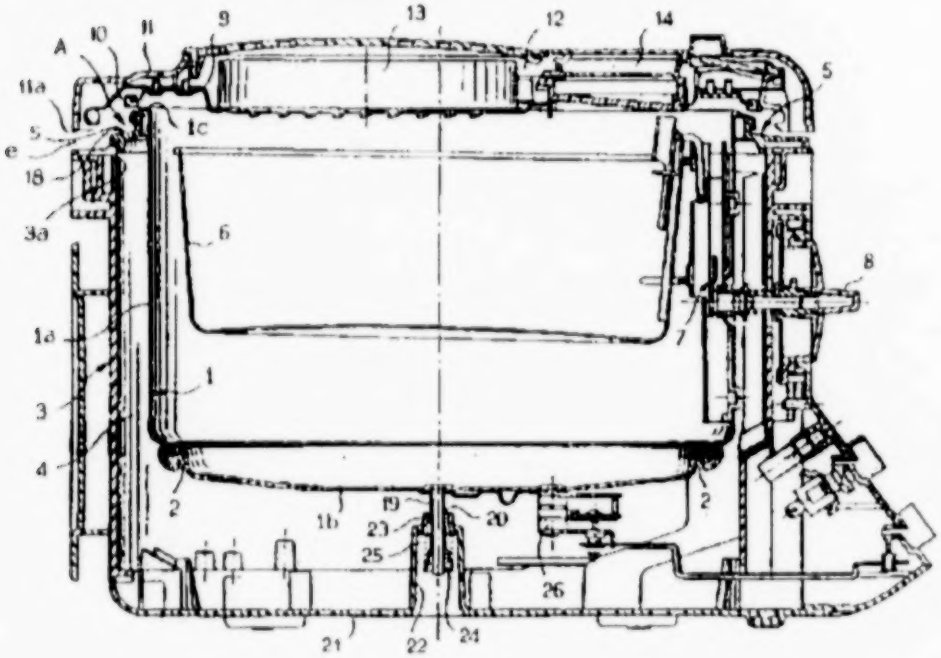
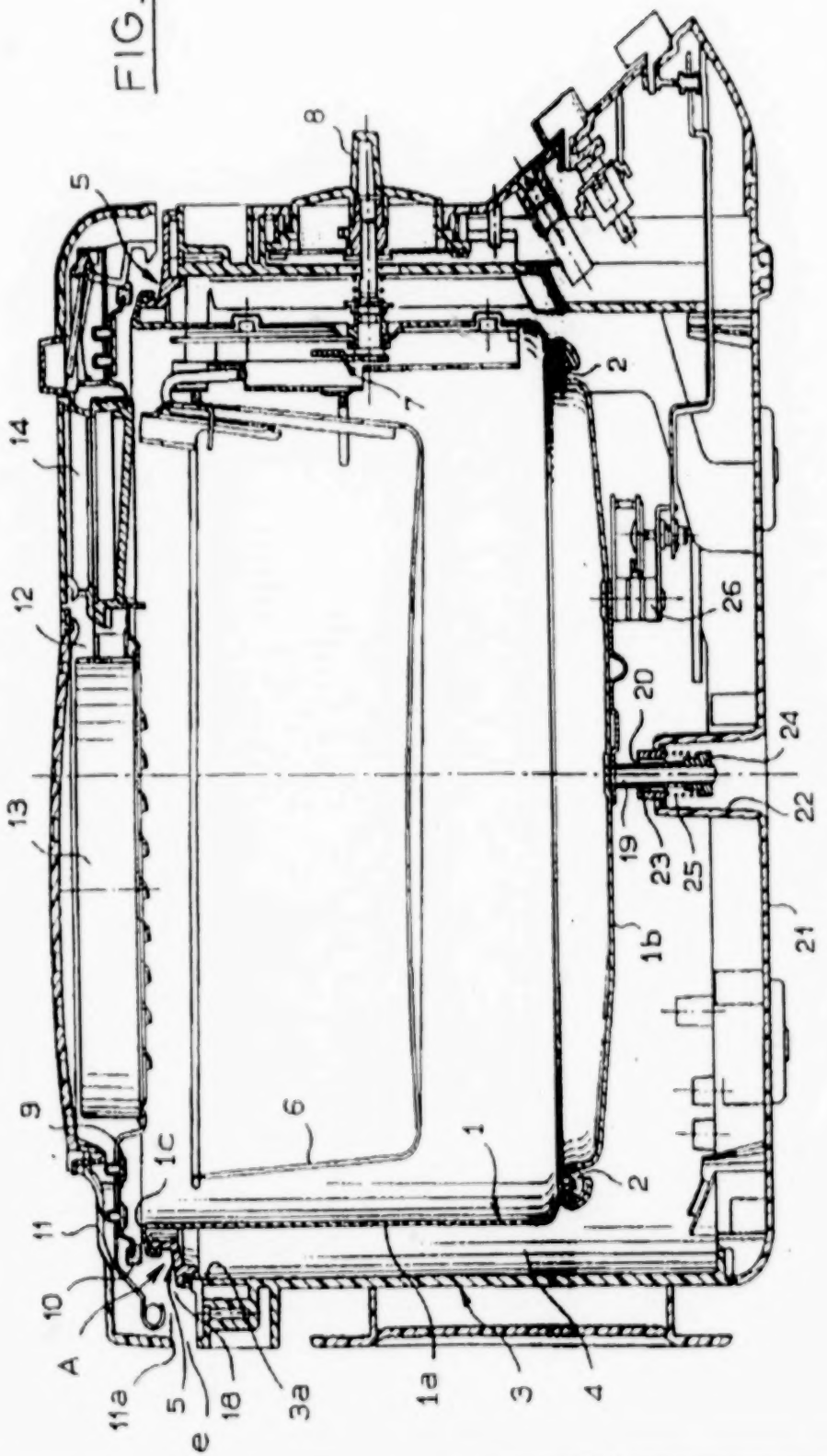
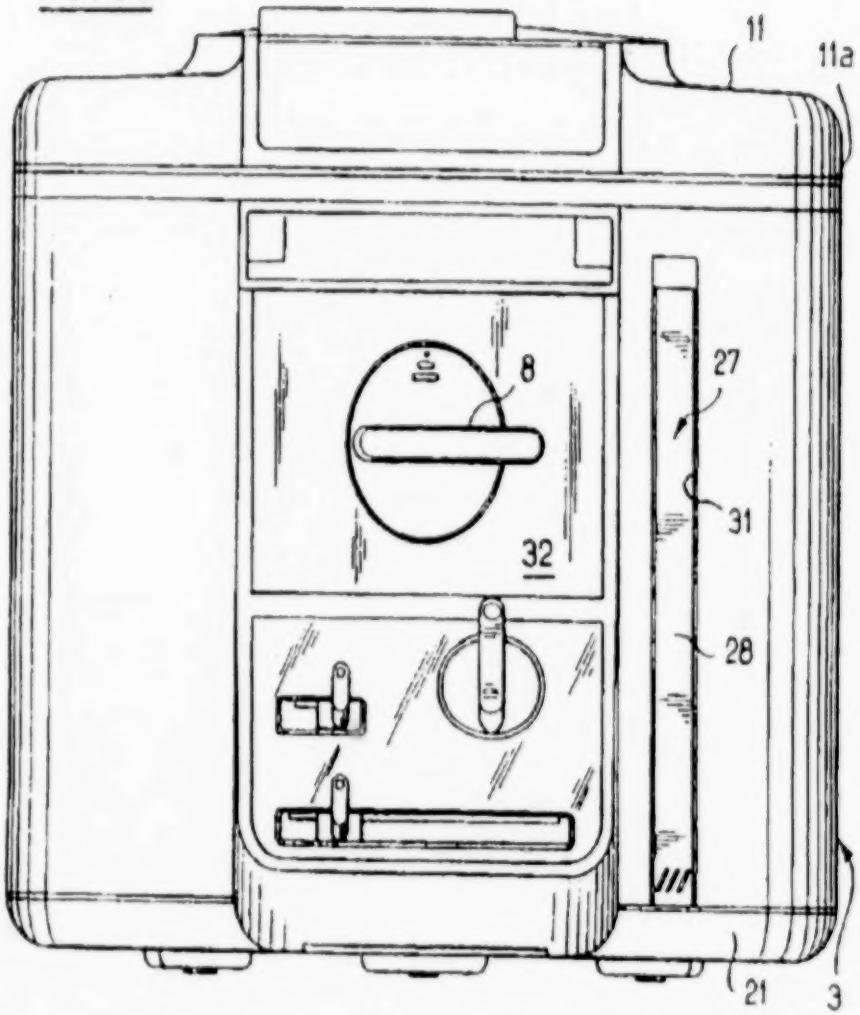


FIG_1


8
5
14
12
13
9
11
10
A
11a
5
e
18
3a
1a
3
4
2
7
6
1c
1
2
26
20
24
22
19
23
25
1b
21

R.A. 69

FIG_3



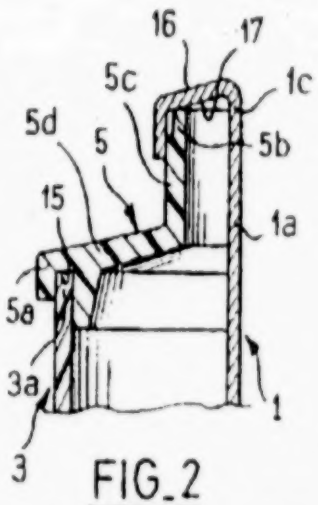


FIG_2

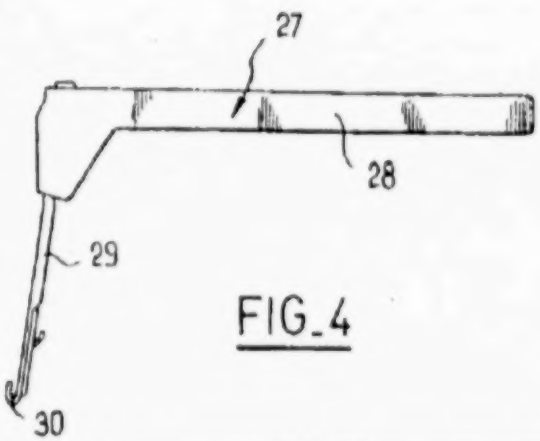


FIG_4

R.A. 70

[1] COOKING APPLIANCE WITH ELECTRIC HEATING

This application is a continuation, of application Ser. No. 488,504, filed Mar. 5, 1990, abandoned, which is a continuation, of application Ser. No. 191,864, filed May 9, 1988, abandoned.

BACKGROUND OF THE INVENTION

1. Field of the Invention

The present invention relates to a cooking appliance provided with a plastic skirt, a metal pan and an electric heating resistor.

The invention applies in particular to deep fryers.

2. Description of the Prior Art

In the majority of known electric fryers, the pan of metal such as aluminum is directly exposed to the surrounding air, which is attended by the following disadvantages:

at the time of operation of the fryer, the pan easily attains a temperature equal to 150° C., with the result that users are liable to burn themselves in contact with said pan,

in view of the fact that the pan is directly exposed to the surrounding air, heat losses are substantial, which is detrimental to thermal efficiency and consequently increases power consumption,

the bare metal of the pan is not conducive to a particularly attractive appearance.

A few attempts have been made to overcome the disadvantages mentioned above.

In order to improve the appearance of the appliance and to reduce the external temperature, consideration has already been given to the possibility of surrounding the pan with an enameled metal skirt.

A further attempt has consisted in surrounding the pan with a plastic skirt. However, the attachment of the metal pan within the plastic skirt is such that numerous thermal bridges exist between said pan and said skirt. By reason of these numerous thermal bridges, the skirt is necessarily formed of plastic material which is capable of continuously withstanding temperatures higher than 150° C., such as the polyamides and the polyesters. These plastics have the major disadvantage of being very costly, with the result that they are incompatible with large-scale manufacture of low-priced fryers.

The object of the present invention is to produce a cooking appliance such as a low-priced deep fryer while effectively guarding users against any danger of burning and at the same time preventing heat losses to the exterior.

SUMMARY OF THE INVENTION

In accordance with the invention, the cooking appliance comprising a metal pan and an electric

heating resistor, said pan being surrounded by a plastic skirt, is distinguished by the fact that said skirt is of plastic material which does not continuously withstand the temperature of the pan wall. Said skirt entirely surrounds the lateral wall and the base of the pan and is separated from these latter by an air space of sufficient width to limit the temperature of the skirt to a value which is compatible with the thermal resistance of the plastic material of the skirt. Said skirt is completely free with respect to the pan, with the exception of a ring which joins the top edge of the skirt to the top edge of the pan and to which this latter is attached, said ring being of [2] heat-insulating material which is continuously resistant to the temperature of the top edge of the pan.

Thus the pan is attached to the interior of the skirt in such a manner as to ensure that the only contact between said skirt and said pan is located at the level of the ring. However, by reason of the fact that the ring is of heat-resistant insulating material, the skirt is not liable to be heated to an excessive temperature.

Thus the skirt can be formed of lower-grade plastic material such as polypropylene which does not continuously withstand a temperature higher than 80° C.

In view of the fact that only the ring is of noble material, the cooking appliance equipped with its outer skirt is inexpensive to produce.

Moreover, by virtue of the substantial air space located between the pan and the plastic skirt, loss of heat to the exterior is very low, thus making the cooking appliance particularly economical to use.

In addition, users are not liable to burn themselves when touching the appliance since the temperature of the skirt does not attain an excessive value. Thus the fryer can be touched at any time, either in order to move it during operation or immediately after the heating has been switched-off.

Moreover, the plastic skirt can be molded in any desired shape which is pleasing to the eye, thus making the appliance particularly attractive.

In an advantageous embodiment of the invention, the lid of the appliance is formed by a metal plate which is intended to cover the top edge of the pan in a substantially fluid-tight manner, the plate being covered by a lid of plastic material of the same nature as that of the skirt, said lid being separated from the metal plate by an air space, the connections between said plate and said lid being located solely at different points.

Thus the lid itself is maintained at a low temperature and is not liable to burn the user. Both the lid and the skirt can be made of inexpensive plastic material.

In a preferred embodiment of the invention, the ring of heat-insulating material is provided with an annular groove in the edge adjacent to the top edge of

the plastic skirt. Said annular groove is engaged on the top edge of the skirt, the top edge of the pan being provided with an annular flange which is bent back so as to define a downwardly open channel which is engaged on the adjacent edge of the ring.

Thus the pan is suspended from said ring which is in turn engaged on the top edge of the skirt, thus ensuring that the pan is reliably attached within the skirt without any thermal bridge other than the very narrow contacts between the edges of the pan, of the ring and of the skirt.

BRIEF DESCRIPTION OF THE DRAWINGS

FIG. **1** is a longitudinal sectional view of a deep fryer in accordance with the invention.

FIG. **2** is a view to a larger scale showing the detail A of FIG. **1**.

FIG. **3** is a view in elevation of the fryer.

FIG. **4** is a plan view of a holder for handling the frying basket of the fryer.

DETAILED DESCRIPTION OF THE INVENTION

In the embodiment of FIG. **1**, the deep fryer essentially comprises an oil pan **1** of metal and an electric heating resistor **2**. Said pan **1** is surrounded by a skirt **3** of plastic material such as polypropylene which does [3] not continuously withstand the temperature of the wall of the pan **1**.

Within the pan **1** is housed a frying basket **6** which can be lifted or lowered by means of a device **7** operated from the exterior by a rotatable knob **8** (as also shown in FIG. **3**).

The skirt **3** completely surrounds the lateral wall **1***a* and the base **1***b* of the pan **1** and is separated from these latter by an air space **4** of sufficient width to limit the temperature of the skirt **3** to a value (for example less than 80° C.) which is compatible with the thermal resistance of the plastic material of the skirt **3**. Moreover, said skirt **3** is completely free with respect to the pan **1** except for a ring **5** which joins the top edge **3***a* of the skirt **3** to the top edge **1***c* of the pan and from which this latter is suspended. Said ring **5** is of heat-insulating material which is continuously resistant to the temperature of the top edge **1***c* of the pan **1**. By way of example, said ring **5** can be of polyamide or of polyester.

The lid of the fryer is formed by a disk-shaped metal plate **9** which covers the top edge **1***c* of the pan **1** in a substantially fluid-tight manner by means of an annular seal **10**. Said plate **9** is covered by a lid **11** of plastic material of the same nature as that of the skirt **3**. Said lid **11** is separated from the metal plate **9** by an air space **12**. The connections between said plate **9** and the lid **11** are solely at different points.

Between the metal plate **9** and the lid **11** is disposed a deodorizing filter **13**. In proximity to this filter **13** is located an inspection window **14** for supervision of the frying operation.

In the embodiment shown in the drawings, the ring **5** of heat-insulating material is provided (as shown in FIG. 2) with an annular groove **15** in that edge **5***a* of said ring which is adjacent to the top edge **3***a* of the plastic skirt **3**, said annular groove **15** being engaged on the top edge **3***a* of the skirt **3**.

Moreover, the top edge **1***c* of the pan is provided with an annular flange **16** which is bent back so as to define a downwardly-open channel **17**, said channel being engaged on the adjacent edge **5***b* of the ring **5**.

In the example illustrated, the ring **5** has a substantially L-shaped transverse cross-section, one portion **5***c* of the L being substantially parallel to the lateral wall **1***a* of the pan **1** and located in spaced relation to this latter whilst the other portion **5***d* extends radially towards the plastic skirt **3**.

Furthermore, when the lid **11** is closed, the bottom edge **11***a* of this latter is separated from the top edge **3***a* of the skirt **3** by a gap e of sufficient width to allow the annular space **18** surrounding the ring **5** to communicate with the external air. Thus the ring **5** is cooled by the surrounding air and is not liable to be heated to an excessive temperature.

The base **1***b* of the pan **1** has a vertical rod **19** engaged in an opening **20** which is formed in a recess **22** of the base **21** of the outer skirt. Said opening **20** is separated from the rod **19** by a sleeve **23** of heat-insulating and heat-resistant material such as polyamide. The end of said rod **19** is fitted with a nut **24** or the like which is held tightly against a spring **25**,

said spring being applied against the edge of the opening **20** which is remote from the pan **1**. This arrangement serves to compensate for manufacturing tolerances as well as dimensional variations caused by heat expansion.

It is also apparent from FIG. **1** that the electric heating resistor **2** is crimped within the base **1***b* of the pan **1** and is sufficiently remote from the base **21** and from the [4] lateral wall of the skirt **3** to prevent any excessive heating of this latter.

A thermostat **26** is attached to the base **1***b* of the pan **1** and is in turn remote from the base **21** of the skirt **3** of plastic material in order to prevent any thermal bridge which would be liable to heat this plastic material to an excessive extent.

The deep fryer in accordance with the invention is provided with a holder **27** for handling the frying basket **6** (as shown in FIG. **4**). Said holder **27** has a handle **28** at the end of which is fixed an arm **29** fitted with a hook **30**.

As shown in FIG. **3**, the skirt **3** is provided on its lateral face with a vertical slot **31** in which the basket holder **27** is flush-mounted in a detachable manner. This arrangement is made possible by the relatively substantial distance (3 to 5 cm) between the pan **1** and the zone of junction of the cylindrical portion of the skirt **3** with the flat portion **32** which surrounds the control knob **8**.

The main advantages of the fryer described in the foregoing are as follows:

The outer skirt **3** of plastic material separated from the oil pan **1** makes it possible to isolate this latter and to guard the user against any danger of burning. At the same time, the air space **4** which surrounds the pan **1** considerably limits heat losses to the exterior, thus permitting a reduction in power consumption.

Moreover, in addition to the fact that the skirt **3** is practically free with respect to the pan **1** or in other words that no thermal bridge is created between the pan and the skirt, this latter can be fabricated from inexpensive ordinary-grade plastic material which does not afford resistance to high temperatures, thus permitting low-cost production of the fryer.

The only portion of the fryer which involves relatively high capital expenditure is the ring **5** which must be of noble material having good high-temperature strength. However, the incidence of said ring on the cost of the fryer is low, taking into account the small dimensions of this part.

The merit of the present invention lies in particular in the fact that, by virtue of a ring of simple design, there has been found an effective solution to the problem presented. This ring alone carries out all the following functions:

it defines the spacing between the pan **1** and the external plastic skirt **3**,

it serves to support and to center the pan **1** within the skirt **3**,

it completely closes-off the air space between the pan **1** and the skirt **3**,

it permits free expansion of the pan **1** with respect to the skirt **3**,

it has the effect of limiting heat transfer between the pan **1** and the skirt **3**.

Moreover, the outer skirt **3** of molded plastic material as well as the lid **11** formed of the same material gives the fryer an entirely new and attractive appearance. This appearance is due in particular to the fact that the control elements of the fryer as well as the basket holder **27** are remarkably integrated in the skirt as shown in FIG. **3**.

As will be readily apparent, the invention is not limited to the example of construction described in the foregoing and any number of modifications may accordingly be contemplated without thereby departing from the scope or the spirit of the invention.

[**5**] Thus the skirt, the lid **11** and the ring **5** can be made of plastic materials other than those given by way of example in the foregoing description.

The invention is applicable to cooking appliances other than deep fryers, such as pressure cookers with integrated electric heating, slow cookers, rice cookers, steam cookers and the like.

What is claimed is:

1. An electrical deep fryer comprising a metal pan (**1**) having a wall, and an electric heating resister (**2**) that heats said wall directly by conductive heating to a temperature higher than 150° C., said pan (**1**) being surrounded by a plastic skirt (**3**), wherein said skirt (**3**) is of plastic material which does not continuously withstand a temperature of 150° C., said skirt (**3**) entirely surrounding the lateral wall (**1***a*) and the base (**1***b*) of the pan and being separated from said wall and said base by an air space (**4**) of sufficient width to limit the temperature of the skirt (**3**) to a value which is compatible with the thermal resistance of the plastic material of the skirt (**3**), said skirt (**3**) being completely free with respect to the pan (**1**) with the exception of a ring (**5**) which joins only the top edge (**3***a*) of the skirt to the top edge (**1***c*) of the pan and to which this latter is attached, said ring (**5**) being of heat-insulating material which is continuously resistant to the temperature of the top edge (**1***c*) of the pan (**1**).

2. An electrical deep fryer according to claim **1**, the lid of the appliance being formed by a metal plate (**9**) which is intended to cover the top edge **91***c*) [sic] of the pan (**1**) in substantially fluid-tight manner, wherein said plate (**9**) is covered by a lid (**11**) of plastic material of the same nature as that of the skirt (**3**), said lid (**11**) being separated from the metal plate (**9**) by an air space (**12**), the connections between said plate (**9**) and the lid (**11**) being located solely at different points.

3. An electrical deep fryer according to claim **1**, wherein the pan (**1**) is suspended from the ring (**5**).

4. An electrical deep fryer according to claim **1**, wherein the ring (**5**) of heat-insulating material is provided with an annular groove (**15**) in the edge (**5***a*) adjacent to the top edge (**3***a*) of the plastic skirt (**3**), said annular groove (**15**) being engaged on the top edge **93***a*) [sic] of the skirt (**3**).

[**6**] **5**. An electrical deep fryer according to claim **1** wherein the top edge (**1***c*) of the pan (**1**) is provided with an annular flange (**16**) which is bent back so as to define a downwardly open channel (**17**) which is engaged on the adjacent edge (**5***b*) of the ring (**5**).

6. An electrical deep fryer according to claim **1** wherein the ring (**5**) has a substantially L-shaped cross-section, one portion (**5***c*) of said L-section being substantially parallel to the lateral wall (**1***a*) of the pan (**1**) and in spaced relation thereto whilst the other portion (**5***d*) of said L-section extends radially towards the plastic skirt (**3**).

7. An electrical deep fryer according to claim **2** wherein, when the lid (**11**) is closed, the bottom edge (**11***a*), of said lid is separated from the top edge (**3***a*) of the skirt by a gap (*e*) of sufficient width to allow the annular space (**18**) surrounding the ring (**5**) to communicate with the external air.

8. An electrical deep fryer according to claim **1** wherein the base (**1***b*) of the pan (**1**) has a vertical rod (**19**) engaged in an opening (**20**) formed in the base

(21) of the outer skirt (3) and separated from the rod (19) by a sleeve (23) of heat-insulating material which affords resistance to the temperature of said rod, the end of said rod (19) being fitted with a nut (24) or the like which is held tightly against a spring (25), said spring being applied against the edge of the opening (20) which is remote from the pan (1).

9. An electrical deep fryer according to claim 2, wherein the skirt (3) and the lid (11) are of polypropylene.

10. An electrical deep fryer according to claim 1 wherein the ring (5) is of polyamide or of polyester.

11. An electrical deep fryer according to claim 1 provided with a holder (27) for handling the frying basket (6), wherein the skirt (3) is provided on its lateral face with a vertical slot (31) in which the basket holder (27) is flush-mounted in a detachable manner.

12. An electrical deep fryer as claimed in claim 1, wherein said ring (5) extends over the full thickness of said air space (4) between the pan (1) and said skirt (3).

13. An electrical deep fryer according to claim 1, wherein said ring (5) completely closes the upper portion of the space (4) between said pan (1) and said skirt (3).

* * * * *

[BAR CODE]
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(12) **EX PARTE REEXAMINATION CERTIFICATE** (7385th)

United States Patent
Leiros

(10) **Number:** **US 4,995,312 C1**

(45) **Certificate Issued:** **Mar. 2, 2010**

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(54) **COOKING APPLIANCE WITH ELECTRIC HEATING**

(75) Inventor: **Ernest Leiros**, Dijon (FR)

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(63) Continuation of application No. 07/488,504, filed on Mar. 5, 1990, now abandoned, which is a continuation of application No. 07/191,864, filed on May 9, 1988, now abandoned.

(30) **Foreign Application Priority Data**

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(51) **Int. Cl.**
A47J 37/12 (2006.01)

(52) **U.S. Cl.** **99/411**; 99/403; 99/413; 219/436; 219/439; D7/354

(58) **Field of Classification Search** 99/403, 99/410, 411, 412, 413, 414, 415, 416, 417, 99/418

See application file for complete search history.

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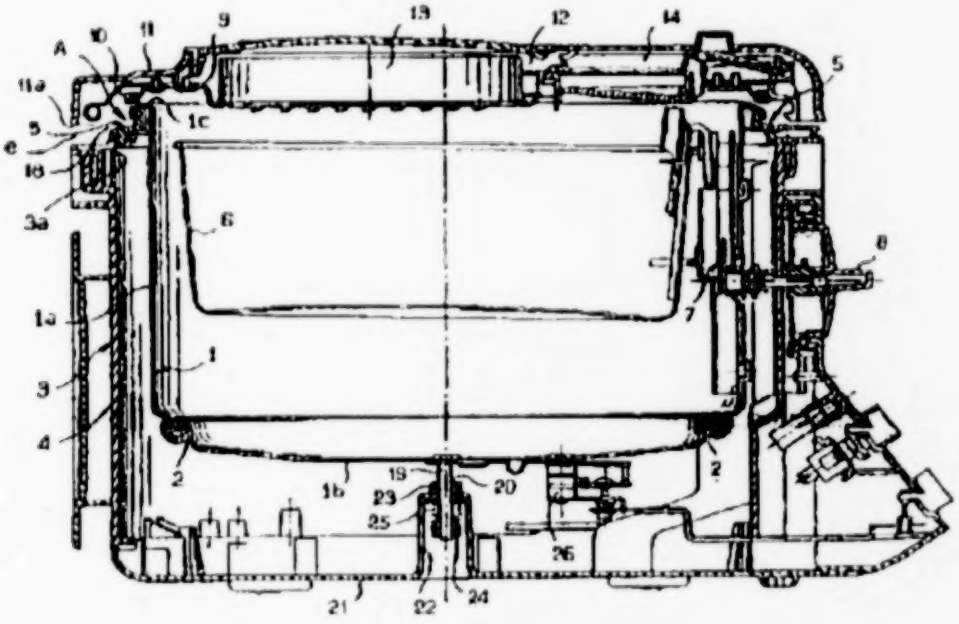
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Primary Examiner—Jimmy T Nguyen

(57) **ABSTRACT**

A plastic skirt (**3**) surrounding a metal pan (**1**) is employed for external heat-insulation of electrically-heated cooking appliances and in particular deep fryers. The skirt (**3**) is of plastic material which does not continuously withstand the temperature of the pan wall (**1***a*, **1***b*) and is separated from this wall by an air space (**4**) of sufficient width to limit the temperature of the skirt (**3**). The skirt is completely free with respect to the pan (**1**) with the exception of a ring (**5**) which joins the top edge (**3***a*) of the skirt to the top edge (**1***c*) of the pan and to which the latter is

attached. The ring (**5**) is of heat-insulating material which affords continuous resistance to the temperature of the top edge (**1***c*) of the pan (**1**).



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[1] EX PARTE REEXAMINATION CERTIFICATE ISSUED UNDER 35 U.S.C. 307

NO AMENDMENTS HAVE BEEN MADE TO THE PATENT

[2] AS A RESULT OF REEXAMINATION, IT HAS BEEN DETERMINED THAT:

The patentability of claims **1-13** is confirmed.

* * * * *

REPLY BRIEF

No. 10-6

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

GLOBAL-TECH APPLIANCES INC.,
and PENTALPHA ENTERPRISES, LTD.,

Petitioners,

v.

SEB S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF

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RULE 29.6 STATEMENT

The corporate disclosure statement in Pentalpha's brief remains accurate.

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ARGUMENT

SEB fails to directly address the question presented in the petition, the proper standard for the state of mind element of inducing patent infringement. Instead, SEB narrows the question presented to whether actual knowledge of the patent is required for whatever standard the Court adopts.

In addressing that knowledge of the patent requirement, SEB identifies three alternative standards for the state of mind element: (i) "purposeful, culpable" conduct to encourage an infringement, (ii) "willful blindness" to an infringement, and (iii) "some effort" to ascertain whether a patent covers a product. (SEB Brief 16-17) SEB argues that Pentalpha meets each of these three standards, and that the Court should therefore affirm.

The defect in SEB's argument is glaring. Each of SEB's three standards presents, at best for SEB, a genuine issue of material fact that the Jury did not resolve. At SEB's request, and over Pentalpha's objection (J.A. 135a), the district court charged the Jury that it could find Pentalpha liable for actively inducing infringement if Pentalpha "knew or should have known that [its] actions would induce actual infringement." (J.A. 148a) The Jury did not determine Pentalpha's liability based upon any of the three alternative standards SEB now identifies. (J.A. 148a) Because each of these three standards involves genuine issues of material fact the Jury did not resolve, the Court should remand for a new trial under the proper standard. *Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co.*, 549 U.S. 312, 326 (2007); *Philip Morris USA v.*

Williams, 549 U.S. 346, 358 (2007); *See generally Pullman-Standard, Inc. v. Swint*, 456 U.S. 273, 291-92 (1982).

Additionally, under any of SEB's three alternative standards, Pentalpha should be entitled to judgment as a matter of law on SEB's pre-April 9, 1998 inducement claims. Because Pentalpha lacked actual knowledge of the Patent before that date, Pentalpha could not have formed a purpose to encourage its infringement. Because Pentalpha hired its patent attorney to search for relevant patents, Pentalpha did not act with "willful blindness" and made more than "some effort" to determine whether its product would infringe.

While adopting an "intent to cause the acts" standard that SEB's Amici advocate would result in an affirmance, the Court should reject that standard because, *inter alia*, it is inconsistent with (i) *Metro-Golden-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005), and (ii) the structure of § 271, because it would impose liability for selling staple articles of commerce without any knowledge beyond how they will be used.

I.

THE COURT SHOULD APPLY THE "PURPOSEFUL, CULPABLE" STANDARD, GRANT PENTALPHA JUDGMENT AS A MATTER OF LAW ON SEB'S PRE-APRIL 9, 1998 CLAIMS AND REMAND FOR A NEW TRIAL UNDER THAT STANDARD ON THE REMAINING CLAIMS

A. The Court Should Apply The "Purposeful, Culpable" Standard.

SEB has not expressly contested Pentalpha's primary argument, that the "purposeful, culpable" standard should apply. But, in arguing that this standard does not require actual knowledge of the Patent, SEB makes four points concerning this standard.

The Text. SEB admits that "'[i]nduce'...carries... arguably, some implication of intent..." (SEB Brief 20) and argues "[n]or would applying the plain language of § 271(b) ensnare innocent corporate behavior." (SEB Brief 16) Accordingly, SEB contradicts its own argument that "the text of § 271(b) contains no scienter requirement whatsoever." (SEB Brief 13)

The Structure of § 271. SEB does not expressly dispute Pentalpha's conclusion that a standard less than "purposeful, culpable" conduct for § 271(b) would render § 271(c) insignificant. (Pentalpha Brief 18-21) Rather, SEB notes that § 271(c) requires knowledge that the only substantial use of the product would be infringing, not a purpose to infringe. (SEB Brief 22 n.6) That distinction, however, only matters in the extraordinary circumstance

that the seller intends the component to be used in an insubstantial, non-infringing manner.

SEB's argument that § 271(b) should involve a lesser state of mind than § 271(c), because § 271(c) contains the word "knowing," is flawed. SEB's cases, *Lindh v. Murphy*, 521 U.S. 320, 330 (1997), *Keene Corp. v. United States*, 508 U.S. 200, 208 (1993), and *Russello v. United States*, 464 U.S. 16, 23 (1983), demonstrate that § 271(b) and § 271(c) should not require the same state of mind, but do not suggest that the term "actively induces infringement" in § 271(b) involves a lesser state of mind than "knowing" in § 271(c). *See generally United States v. United States Gypsum Co.*, 438 U.S. 422, 444 (1978)("[T]he Code enumerates four possible levels of intent -- purpose, knowledge, recklessness, and negligence.").

SEB's argument that a "purposeful, culpable" standard would merge the compensatory remedy under § 271(b) with the enhanced remedies under §§ 284 and 285 (SEB Brief 21-23), ignores the additional requirements for the enhanced remedies. Enhanced remedies under §§ 284 and 285 require the district court to exercise its discretion. *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 858 (Fed. Cir. 2010), cert. granted, 2010 U.S. LEXIS 9311 (Nov. 29, 2010). Moreover, enhanced remedies require proof of willfulness by clear and convincing evidence. *Ilor, LLC v. Google, Inc.*, 2011 U.S. App. LEXIS 516 at *11 (Fed. Cir. Jan. 11, 2011); *Aspex Eyewear, Inc. v. Clariti Eyewear, Inc.*, 605 F.3d 1305, 1314 (Fed. Cir. 2010). Also, even if § 271(b) required "purposeful, culpable" conduct, the compensatory remedies in § 271 and enhanced remedies in §§ 284 and 285 would not merge, because § 271 contains multiple sub-sections that each provide a basis for enhanced remedies.

Thus, statutes in which enhanced damages would almost always result if compensatory damages required willfulness are distinguishable. 29 U.S.C. § 626(b); *Trans World Airlines, Inc. v. Thurston*, 469 U.S. 111, 128 (1985) (rejecting a broad "willfulness" standard for compensatory damages under the ADEA that "would result in an award of double damages in almost every case"); *Cf.* 29 U.S.C. § 255; *McLaughlin v. Richland Shoe Co.*, 486 U.S. 128, 132-33 (1988)(two-tiered statute of limitations).

Legislative History. SEB does not dispute that the Senate Report for the final bill demonstrates that the purpose of § 271(b) was to create liability for morally culpable conduct. (Pentalpha Brief 21-22) In addition, the memorandum of the New York Patent Law Association, that SEB cites at 24, provides "[t]he definition of contributory infringement contained in the statute is somewhat narrower than that generally applied by the courts before the Supreme Court decisions referred to. In [sic] confines actionable contributory infringement to acts which obviously and inevitably constitute the stealing of a patented invention which both in law and morals must be prevented if patent property is to enjoy the protection given other property." *Contributory Infringement in Patents–Definition of Invention: Hearings on H.R. 5988 before the Subcomm. on Patents, Trademarks, & Copyrights of the H. Comm. on the Judiciary*, 80th Cong., 6 (1948) (statement from N.Y. Patent Law Ass'n).

Instead, SEB relies upon witness statements in congressional hearings. These witness statements have little force. *Regan v. Wald*, 468 U.S. 222, 237 (1984). The significance of language a witness suggested, and Congress did not adopt, differs materially from language

appearing in one section of a statute but not another, as in *Hamdan v. Rumsfeld*, 548 U.S. 557, 579-80 (2006), superceded by statute, Military Commissions Act of 2006, Pub. L. No. 109-366, 120 Stat. 2600 (2006).

SEB's argument based upon § 271(f) has little force because Congress enacted that sub-section in 1984, 32 years after the Patent Act of 1952. *Doe v. Chao*, 540 U.S. 614, 626-27 (2004).

Policy. SEB misses Pentalpha's point concerning the distinction between "induces" and "causes." (SEB Brief 48 n.27) The text of § 271(b) creates liability for conduct that "induces" direct infringement, without requiring that it "cause" direct infringement. The statute therefore covers situations where the direct infringement would have occurred without the inducement. Because § 271(b) imposes liability for conduct that does not necessarily cause direct infringement, the Court should infer that Congress intended to impose a higher state of mind standard to capture only the morally culpable actors. (Pentalpha Brief 22-23) SEB's point that direct infringement is required (SEB Brief 48 n.27) is irrelevant.

SEB also misses Pentalpha's point concerning the presumption against extraterritoriality. Pentalpha argued that the Court should presume that Congress did not intend to regulate foreign conduct any further than necessary to achieve an important United States interest, and that regulating "purposeful, culpable" conduct is a more important United States interest than regulating conduct involving a lesser state of mind. (Pentalpha Brief 24-26) SEB's description of Pentalpha's foreign conduct that impacts United States commerce (SEB Brief 44 n.23) is irrelevant.

B. Pentalpha's Liability Under The "Purposeful, Culpable" Standard Presents At Least A Jury Question.

SEB argues that Pentalpha intended to encourage an infringement, by taking "other affirmative steps...to foster an infringement." (SEB Brief 15-16, 31-32) SEB's analysis ignores the testimony of Pentalpha's President that: he wanted to determine whether Pentalpha's deep fryer infringed (J.A. 49a), he retained a patent attorney to conduct a patent search and to provide a written opinion (J.A. 48a), and, after he reviewed the written opinion, he believed that Pentalpha's deep fryer did not infringe any patent. (J.A. 49a-50a)

At best for SEB, the facts it recites (SEB Brief 15-16, 31-32) create a jury question as to whether Pentalpha had a purpose to encourage an infringement.

1. Many of SEB's facts concern ordinary product distribution: (a) purchasing of SEB's deep fryer abroad, (b) hiring its regular "small patent firm in Binghamton, New York" to conduct a patent search and render an opinion (J.A. 48a, Ex. R, S.A. 69, J.A. 78a, 79a, 83a), (c) selling deep fryers, and (d) printing operating manuals in English. These facts do not demonstrate a purpose to encourage infringement. *Grokster*, 545 U.S. at 937.

2. Pentalpha's reverse engineering of SEB's deep fryer, without any actual knowledge of SEB's patent, suggests a purpose to innovate, not infringe. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 160 (1989) ("Reverse engineering of chemical and mechanical articles in the public domain often leads to significant advances in

technology..."). While developing Pentalpha's deep fryer involved in this case, Pentalpha's President invented an improved deep fryer for which he received United States Patent No. 5,771,781. (S.A. 74)

3. Pentalpha did not just copy the features of SEB's deep fryer. Pentalpha's deep fryer represented an improvement over SEB's deep fryer with respect to at least six functional features. (Pentalpha Brief 3-4; J.A. 156a) SEB does not dispute that fact, but characterizes Pentalpha's functional improvements as "superficial." (SEB Brief 3)

Copying product features, without knowledge of a patent, does not encourage infringement, but furthers competition. *Traffix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 29 (2001); *Bonito Boats*, 489 U.S. at 164 ("Where an item in general circulation is unprotected by patent, '[r]eproduction of a functional attribute is legitimate competitive activity.'")(citation omitted); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964). While copying may be a factor in determining the amount of enhanced damages to award for willful infringement, copying alone should not support an inference of willful infringement. *Cf. Minks v. Polaris Indus.*, 546 F.3d 1364, 1380 (Fed. Cir. 2008).

Because all the other deep fryers Pentalpha evaluated had the "cool touch" feature (J.A. 109a-110a), there was little reason to suspect that SEB had a monopoly on that feature.

4. The fact that Pentalpha did not volunteer to its patent attorney that it used SEB's deep fryer as one of several references does not demonstrate a purpose to encourage an infringement.

(a) Pentalpha disclosed its design drawings to its patent attorney. (J.A. 49a)

(b) Pentalpha's practice was to rely upon the expertise of its patent attorney to identify patents (J.A. 111a-12a), not to volunteer references.

(c) The record contains no evidence that Pentalpha's conduct departed from standard industry practice.

5. Selling deep fryers after it had actual knowledge of SEB's Patent on April 9, 1998, does not demonstrate a purpose to encourage infringement. SEB admits that there are "too many vague patents." (SEB Brief 46) SEB does not dispute that Pentalpha had no reason to believe that the Federal Circuit would construe SEB's claim limitation:

> "said skirt (3) being completely free with respect to the pan (1) with the exception of a ring (5)" (Pet. App. 11a)

to mean

> "no solid material between *the sides of* the pan and *the sides of* the skirt and *no thermal bridges* between the base of the skirt and the base of the pan." (Pet. App. 15a-16a; emphasis added; Pentalpha Brief 29-30)

6. Pentalpha did not, after a preliminary injunction, simply make "minor modifications" to its deep fryer. Rather, Pentalpha eliminated the "ring" that connected

the pan to the skirt, and instead used small blocks of insulating material that allowed the deep fryer to cool more quickly. (Pet. App. 16a-18a) Pentalpha then sought an opinion of a different patent attorney, who advised that Pentalpha's redesigned deep fryer did not infringe the SEB Patent, either literally or under the doctrine of equivalents. (Pet. App. 51a; R.S.A. 8a-29a) Although the district court found that Pentalpha's redesigned deep fryer did not literally infringe SEB's Patent, it found infringement under the doctrine of equivalents. (Docket No. 49, 7) The district court nevertheless declined to hold Pentalpha in contempt because it found Pentalpha did not intend to infringe. (R.S.A. 4a-7a)

SEB argues that this Court "found [the *Grokster* defendants] all liable for inducing infringement." (SEB Brief 14) SEB is mistaken. This Court found that the application of the "purposeful, culpable" standard presented a question of fact that could not be resolved on summary judgment, and remanded. *Grokster*, 545 U.S. at 941.

C. Under The "Purposeful, Culpable" Standard, Pentalpha Is Entitled To Judgment On SEB's Pre-April 9, 1998 Inducement Claims.

The parties agreed at the charging conference that Pentalpha had no actual knowledge of the Patent before April 9, 1998. (J.A. 147a)

As explained below, without actual knowledge of the claims of a patent, one cannot engage in "purposeful, culpable" conduct to encourage infringement of that patent.

One cannot know the scope of patent without knowing the claims of the patent. The Court should not impute that knowledge. Patent claims are not law. A majority cannot petition the government to repeal a patent.

Without knowing the scope of the patent, one cannot have a purpose to infringe it. For example, one cannot contributorily infringe under § 271(c) without actual knowledge of the patent. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964)("§ 271(c) does require a showing that the alleged contributory infringer knew that the combination for which his component was especially designed was both patented and infringing.") (footnote omitted). Similarly, one cannot willfully infringe under § 284 without actual knowledge of the patent. *National Presto Indus. Inc. v. West Bend Co.*, 76 F.3d 1185, 1193 (Fed. Cir. 1996)("[T]o willfully infringe a patent, the patent must exist and one must have knowledge of it.") (internal quotation omitted).

SEB's reliance upon *Grokster*, on this specific issue, is misplaced. *Grokster* is distinguishable because the distribution of its software was certain to result in the exact copying of entire copyrighted works. The *Grokster* defendants "concede[d] the infringement in most downloads...[and were] aware that users employed their software primarily to download copyrighted files." *Grokster*, 545 U.S. at 923. Therefore, "*Grokster* did not involve a 'knowledge of the copyright' requirement, since the defendants in that case essentially admitted having knowledge that the infringed works were subject to copyright." (SEB Opp. Pet. 10)

The nature of copyrights, and the nature of the infringements in *Grokster*, allowed an inference that the defendants had a purpose to encourage infringements without actual knowledge of the specific copyrights infringed. Copyrights apply to works that are original, *i.e.* not copied. 17 U.S.C. § 102(a). They exist upon the fixation of the work in a tangible medium. 17 U.S.C. § 102(a). Copyrighted works are therefore ubiquitous. The *Grokster* software resulted in "massive" downloads, the vast majority of which were infringing. *Grokster*, 545 U.S. at 923. These circumstances allowed an inference that defendants had a purpose to encourage copyright infringement without actual knowledge of the specific copyrights infringed.

The nature of patents would prohibit that inference. Patents, unlike copyrights, require products or methods that are not obvious. 35 U.S.C. § 103(a). Patents, unlike copyrights, exist only after an application and examination process that, if successful, results in the allowance of claims. 35 U.S.C. § 111 *et seq.* An infringement analysis requires construction of these patent claims. That process is extraordinarily uncertain. Kimberly A. Moore, *Markman Eight Years Later: Is Claim Construction More Predictable?*, 9 Lewis & Clark L. Rev. 231, 235-36 (2005). Therefore, while determining the scope of a patent with actual knowledge of its claims is difficult, doing so without knowledge of its claims is nothing more than guesswork. Actual knowledge of the patent is therefore required to engage in "purposeful, culpable" conduct to encourage patent infringement.

The Court should reject SEB's argument that "willful blindness" to the existence of a patent, a separate analytical step from "willful blindness" to an infringement, should

equate to "purposeful, culpable" conduct to encourage patent infringement. If actual knowledge of a patent alone does not equate to "purposeful, culpable" conduct to encourage patent infringement, then "willful blindness" to the existence of the patent should not create any greater liability.

Although the Court need not decide this issue, willful blindness to the existence of the patent should not allow an inference of "purposeful, culpable" conduct to encourage an infringement. Without knowledge of the patent claims, a willfully blind party could still do no more than guess what products would infringe the patent. A state of mind that results from no more than a guess should not present the type of morally culpable conduct that § 271(b) circumscribes.

II.

IF THE COURT APPLIES A "WILLFUL BLINDNESS" TO THE INFRINGEMENT STANDARD, PENTALPHA IS ENTITLED TO JUDGMENT AS A MATTER OF LAW ON SEB'S PRE-APRIL 9, 1998 CLAIMS AND A NEW TRIAL UNDER THAT STANDARD FOR THE REMAINING CLAIMS

A. The Court Should Not Apply A "Willful Blindness" To The Infringement Standard.

Imposing liability for willful blindness to an infringement would be inconsistent with *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). In *Sony*, this Court refused to impose liability for inducing copyright infringement on a VCR distributor that knew

some infringements would result from its VCR sales. *Id.* at 439 n.19; *Grokster*, 545 U.S. at 937. If knowledge of resulting infringements does not create liability for inducing infringement, then willful blindness as to whether infringements would result should not create that liability.

Although this case differs from *Sony*, because all of the sales of deep fryers could result in infringements if sold in the United States, while not all of the sales of VCRs would result in infringements, that distinction should not warrant a different result. No one could reliably determine at the time Pentalpha first sold the deep fryer to its customers whether it would infringe the Patent, given the uncertainty of the claim construction. (Pentalpha Brief 30) If the Court imposed liability based upon "willful blindness" to whether an infringement would result, the Court would chill good faith developers, especially foreign developers, from bringing non-infringing products to market for fear that, after litigation, their customers would be found to directly infringe, and that the developer would be found willfully blind to that risk of infringement. A "purposeful, culpable" standard would not create that chilling effect, because the developer could rely upon a good faith intent not to infringe.

Thus, in *Grokster*, this Court did not accept the Solicitor General's suggestion that willful blindness suffices to impose liability for inducing copyright infringement. Brief for the United States as Amicus Curiae Supporting Petitioners, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005) (No. 04-480) at 29-30.

B. Pentalpha's Liability Under A "Willful Blindness" Standard Presents At Least A Jury Question.

Under any test for willful blindness, *see, e.g. Holder v. Humanitarian Law Project*, 130 S. Ct. 2705, 2740 (2010); *United States v. Santos*, 553 U.S. 507, 521 (2008) superceded by statute, Fraud Enforcement and Recovery Act of 2009, Pub. L. No. 111-21, 123 Stat. 1617 (2009), a jury could find that Pentalpha was not willfully blind to the possibility of an infringement. Before April 9, 1998, Pentalpha hired a patent attorney to search for relevant patents and to provide an infringement opinion. (S.A. 17-37) For its redesigned deep fryer, Pentalpha sought an opinion from a different patent attorney, and received an opinion that its redesigned deep fryer did not infringe. (R.S.A. 8a-29a)

C. Under A "Willful Blindness" Standard, Pentalpha Is Entitled To Judgment On SEB's Pre-April 9, 1998 Inducement Claims.

No reasonable jury could conclude that Pentalpha willfully blinded itself to the existence of the SEB Patent because Pentalpha hired an attorney to search for applicable patents. (J.A. 47a-50a) SEB argues "[h]ad Pentalpha given the attorney that information [concerning the SEB deep fryer], it would have received certain confirmation of SEB's patent." (SEB Brief 37) That is speculation. The district court recognized that the record contained no evidence that the non-disclosure of the SEB reference to the patent attorney resulted in the search failing to identify the SEB Patent. (J.A. 129a-30a)

III.

IF THE COURT APPLIES A "SOME EFFORT" STANDARD, PENTALPHA IS ENTITLED TO JUDGMENT AS A MATTER OF LAW ON SEB'S PRE-APRIL 9, 1998 CLAIMS AND A NEW TRIAL UNDER THAT STANDARD FOR THE REMAINING CLAIMS

A. The Court Should Not Apply A "Some Effort" Standard.

SEB's proposed standard that a defendant who copies a product should be liable for inducement absent "some effort to ascertain whether the copied product is protected by US patents..." (SEB Brief 17) would create a duty that is inconsistent with *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007)(en banc), cert. denied, 552 U.S. 1230 (2008). *Seagate* held that an accused direct infringer has no duty to investigate whether its product infringes, or to obtain an opinion of counsel, even after being charged with an infringement. *Id.* at 1371. Imposing on a potential inducer a duty to investigate whether its customers' sales would infringe would conflict with *Seagate*.

Similarly, SEB's argument that allowing Pentalpha to avoid liability would provide a roadmap for "unscrupulous foreign manufacturers" to violate patents (SEB Brief 43) rings hollow. Unscrupulous foreign manufacturers could avoid all liability under any standard this Court adopts by insulating their assets from judgment enforcement proceedings. The standard that the Court adopts will impact only foreign companies that have United States assets, like Pentalpha.

SEB's proposed standard violates the rule that the text of a statute should not have different meanings in different situations. SEB proposes that the meaning of "actively induces" should change depending on whether "a defendant reverse engineers and copies a commercial product." (SEB Brief 17) Such a standard would contravene *Santos*, 553 U.S. at 522 ("*Clark v. Martinez*, 543 U.S. 371, 125 S. Ct. 716, 160 L. Ed. 2d 734 (2005), held that the meaning of words in a statute cannot change with the statute's application.").

B. Pentalpha's Liability Under The "Some Effort" Standard Presents At Least A Jury Question.

Because Pentalpha hired a patent attorney to find relevant patents, and received his written opinion that its deep fryer did not infringe (S.A. 17-37), a jury could find that Pentalpha met the "some effort" standard that SEB advances.

SEB's "some effort" standard is different than a negligence standard. The Court should therefore not rely upon the Jury's finding of negligence. Moreover, despite Pentalpha's objection (J.A. 135a), the district court's "knew or should have known of the infringement" charge (J.A. 148a) allowed the Jury to find liability because the Patent was on file at the Patent and Trademark Office and because it believed that Pentalpha should have found it.

C. Under A "Some Effort" Standard, Pentalpha Is Entitled To Judgment On SEB's Pre-April 9, 1998 Inducement Claims.

By hiring a patent attorney to search for relevant patents, Pentalpha made at least "some effort" to

determine whether its deep fryer would infringe a patent, and therefore met SEB's proposed standard.

IV.

THE COURT SHOULD REJECT THE "INTENT TO CAUSE THE ACTS" STANDARD THAT SEB'S AMICI ADVOCATE

SEB's Amici advocate imposing § 271(b) liability on parties selling a staple article of commerce intending it will be used in a finished product, but not knowing that the finished product infringes a patent. (*See* Hoffman-LaRoche 13-15; Professors 24-26; AIPLA 11-12; Mitchell 24) SEB, wisely, shuns this standard. (SEB Brief 30)

A. An "Intent To Cause The Acts" Standard Is Inconsistent With *Grokster*.

Grokster held that inducement requires an "unlawful purpose" to encourage an infringement. *Grokster*, 545 U.S. at 938. (Pentalpha Brief 16-18; Yahoo 5-6)

SEB's Amici have incorrectly paraphrased *Grokster's* language. (*Compare* Hoffman-LaRoche 13 ("where a person is shown to have 'actively induced' another to perform acts that infringe a patent or copyright, such a showing 'overcomes...'") with *Grokster*, 545 U.S. at 936 ("A showing that infringement was encouraged overcomes..."); Professors 25) SEB's Amici further ignore *Grokster's* reliance on evidence that defendants intended to serve former Napster users. *Grokster*, 545 U.S. at 939 ("Three features of this evidence of intent are particularly notable. First, each company showed itself to be aiming to satisfy a known source of demand for copyright infringement,

the market comprising former Napster users."). If an "intent to cause the acts" standard applied, the Court would not have needed to address these facts concerning defendants' knowledge of the infringing proclivities of the Napster users.

B. An "Intent To Cause The Acts" Standard Renders § 271(c) Insignificant.

Section 271(c) requires knowledge of the patent. *Aro Mfg. Co.*, 377 U.S. at 488. Under an "intent to cause the acts" standard, § 2.1(b) would not require knowledge of the patent. A component seller could therefore violate § 271(b), under an "intent to cause the acts" standard, with a lower state of mind than § 271(c) requires, and without meeting the additional requirements that § 271(c) imposes. Thus, under an "intent to cause the acts" standard, a seller of staple articles could be liable under § 271(b) if it merely intended the article be used in the buyer's finished product, but could not be liable under § 271(c). Because § 271(c) specifically addresses the sale of staple articles, Congress would not have intended such an anomalous result.

Amicus Hoffman-LaRoche presents one situation where the "intent to cause the acts" standard would create liability for a component seller under § 271(c), but not § 271(b): A supplier of (i) a non-staple product, (ii) that is a material part of the invention, (iii) which the seller knows is especially made or especially adapted for use in an infringement of a patent, supplies the good to its customer, but (iv) does not intend for the customer to use the non-staple as it was specifically designed. (Hoffman-LaRoche Brief 8, n.3) This situation, however, is commercially insignificant.

The reliance of SEB's Amici upon The Restatement of Torts (First) § 876 is misplaced because that section has a different structure than § 271. Section 876(b) does not contain any additional requirements beyond a state of mind and an encouragement of an act. That differs from § 271(c) which has additional requirements, such as the sale of a non-staple article. Unlike § 271, the Restatement therefore does not present any risk that conduct within a safe harbor of one sub-section would be actionable under another.

C. An "Intent To Cause The Acts" Standard Is Inconsistent With The Statutory Language.

Two of SEB's Amici argue that the text of § 271(b) supports the "intent to cause the acts" standard. (AIPLA 5, Hoffman-LaRoche 4-6) However, § 271(b) states "actively induces infringement," not "actively induces the making, using, offering to sell, or selling" of a product, as set forth in § 271(a). As SEB's Amicus Professors concede, the statutory language is, at best for SEB, ambiguous. (Professors 24-26)

D. The Pre-1952 Cases Have Little Relevance.

SEB's Amici argue that pre-1952 case law did not contain a knowledge of the patent, or a purpose to cause an infringement, requirement. (AIPLA 6-10, Hoffman-LaRoche 9-13, Professors 5-23, Mitchell 4-10)

However, § 271(b), enacted in 1952, changed existing law. H.R. Rep. No. 1923, 82d Cong. 2d Sess. 5 (1952) (Identifying § 271 as one of the "major changes or innovations in the title"); *Dawson Chem. Co. v. Rohm &*

Haas Co., 448 U.S. 176, 213 (1980)("It is the consistent theme of the legislative history that the statute was designed to accomplish a good deal more than mere clarification."); (SEB Brief 25, n.11)("[T]his Court has already concluded that § 271(b) was *not* intended merely to codify the common law."). Thus, pre-1952 cases should not impact the analysis.

The pre-1952 cases SEB's Amici cite provide little support for an "intent to cause the acts" standard. Most involve lower courts decisions. Most decisions of this Court involved § 271(c) fact patterns, and many involved actual knowledge of the patent. *See, e.g. Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 664-69 (1944)("[I]t could find no use for the accused devices other than in the Cross combination patent...Mercoid knew of Mid-Continent's actions and the license agreement prior to 1935 when the earlier suit involving the validity of the Cross patent..."); *Henry v. A. B. Dick Co.*, 224 U.S. 1, 33 (1912) overruled by *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917)("But if the defendants knew of the patent and that she had unlawfully made the patented article, and then sold her ink or other supplies without which she could not operate the machine, with the intent and purpose that she should use the infringing article by means of the ink supplied by them, they would assist in her infringing use."); *Leeds & Catlin Co. v. Victor Talking Mach. Co.*, 213 U.S. 325, 331 (1909) overruled by *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944) (the accused contributory infringer and contemnor "knew, and sold its records with the knowledge, that if its output was to be used at all by the public it would be used with the Victor machine, and in the combination protected by the claims of the Berliner patent..."); *Morgan Envelope Co.*

v. Albany Perforated Wrapping Paper Co., 152 U.S. 425, 436 (1894)("That, before a patent was issued, [defendant] himself applied for protection in England, and learning of the filing of the application there by [plaintiff], filed a protest against the issuance of a patent to the latter..."); *Cotton-Tie Co. v. Simmons*, 106 U.S. 89, 95 (1882) ("Because the defendants prepare and sell the arrow tie, composed of the buckle or link and the band, intending to have it used to bale cotton and to produce the results set forth in the Cook and the McComb patents, they infringe those patents.").

V.

BOTH OF SEB'S HARMLESS ERROR ARGUMENTS FAIL, IN PART BECAUSE SEB MISSTATED THE RECORD

A. Because No One Knows Whether The Jury Awarded Damages For Inducing Infringement, Selling An Infringing Product Or Offering To Sell An Infringing Product, Any Error Concerning The Standard For Inducing Infringement Should Require A Remand.

The Federal Circuit held "[t]he record therefore does not clearly indicate that the jury found damages based on inducement alone, or based on direct infringement alone, or both" (Pet. App. 24a), due to an inconsistency between the charge and the verdict sheet concerning the number of deep fryers that Pentalpha sold and the number its customers sold. (Pet. App. 23a-24a) The Federal Circuit therefore correctly concluded that "the only way this court can affirm in such a circumstance is by determining

that the jury's finding of both direct infringement and inducement of infringement was proper." (Pet. App. 24a)

SEB argues that the Federal Circuit erred in analyzing this issue because "there was no difference at all in the number of fryers sold by Pentalpha and the number of fryers sold by retailers--*by stipulation, both were identical.*" (SEB Brief 51; emphasis added)

SEB is mistaken. The stipulation concerned only Pentalpha's sales to its customers (R.A. 63), not sales by Pentalpha's customers:

> "14. Defendants sold approximately 312,736 deep fryers to Sunbeam Products, Inc.. [sic]
>
> "15. Defendants sold approximately 46,418 deep fryers to Montgomery Ward.
>
> "Number 16. Defendants sold approximately 47,604 deep fryers to Fingerhut." (R.A. 63)

The Jury therefore needed to determine, based upon the evidence and not upon the stipulation, whether Pentalpha's customers resold in the United States all of the deep fryers that they purchased from Pentalpha. Pentalpha argued in summation that there was no evidence that Montgomery Ward sold all of Pentalpha's deep fryers in the United States, rather than Canada. (R.S.A. 33a) No one knows what the Jury determined in that respect. Moreover, no one knows whether the Jury would have awarded the same royalty rate for a sale by Pentalpha as a sale by its customers.

In addition to the uncertainty that the Federal Circuit identified concerning the basis for the Jury's damage award, a more serious uncertainty existed. The Jury made one award of damages, by customer, for all theories of liability. (J.A. 151a-152a) Although the Jury found direct infringement, no one knows how much damage, if any, the Jury awarded for direct infringement, as opposed to inducing infringement. The Jury's finding of direct infringement, moreover, did not distinguish between liability for selling a deep fryer and liability for offering to sell a deep fryer. (J.A. 150a) Thus, no one knows whether the Jury found liability for direct infringement based upon selling in the United States, offering to sell in the United States, or both. Consistent with the charge and Pentalpha's summation, the Jury may have found that Pentalpha's sales FOB Hong Kong or China were not sales "in the United States" (R.A. 25; R.S.A. 30a-31a) and that Pentalpha was liable for direct infringement based solely upon an offer to sell deep fryers in the United States. (R.A. 33-34; R.S.A. 31a-32a) Also consistent with the charge (R.A. 25) and Pentalpha's summation (R.S.A. 31a-32a), the Jury may have found that an offer to sell in the United States did not require the payment of a royalty. Accordingly, the Jury's entire damage award may have rested on an inducement theory.

The Jury's finding of inducement did not distinguish between liability before, and after, Pentalpha learned of the Patent on April 9, 1998. (J.A. 150a)

Therefore no one knows what portion of the $4,650,000 damage award rested upon a theory of (i) sales, (ii) offers to sell, (iii) inducement before April 9, 1998, or (iv) inducement after April 9, 1998. Any legal error concerning

the inducement claims should therefore require a remand for a new trial.

B. The Jury Did Not Find That Pentalpha Had Actual Knowledge Of The Patent Before April 9, 1998.

SEB argues that the Jury awarded damages for willful infringement (based upon a subsequently overruled standard), that willful infringement under the charge required actual knowledge of the Patent, and that the Jury therefore found that Pentalpha had actual knowledge of the Patent. (SEB Brief 51-53)

SEB is mistaken. The district court and parties agreed at the charging conference (J.A. 138a-47a) that Pentalpha had actual knowledge of the Patent on April 9, 1998, and not before that date. (J.A. 147a) The district court therefore did not charge the Jury to determine willfulness before April 9, 1998.

Accordingly, SEB's argument that the Jury found that Pentalpha had actual knowledge of the Patent before April 9, 1998 rests upon a misstatement of the record.

CONCLUSION

This Court should reverse the judgment of the Federal Circuit and remand the action to the district court for further proceedings.

Dated: January 31, 2011

Respectfully submitted,

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REPLY SUPPLEMENTAL APPENDICES

APPENDIX A — MEMORANDUM DECISION AND ORDER OF THE UNITED STATES DISTRICT COURT, SOUTHERN DISTRICT OF NEW YORK, DATED JUNE 26, 2001

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

99 Civ. 9284 (BDP)

SEB S.A.,

Plaintiff,

-against-

MONTGOMERY WARD & CO., INC.,
GLOBAL-TECH APPLIANCES, INC.,
and PENTALPHA ENTERPRISES LTD.,

Defendants.

MEMORANDUM DECISION AND ORDER

BARRINGTON D. PARKER, JR., U.S.D.J.

Plaintiff, SEB S.A. ("SEB") commenced this action in August 1999 against Montgomery Ward & Co, Inc., Global-Tech Appliances, Inc. and Pentalpha Enterprises Ltd., claiming that a deep fryer, Admiral Model No. 4564205, marketed by Montgomery Ward and manufactured by Pentalpha, infringed United States Patent No. 4,995,312 (the "'312 Patent"). *See* 35 U.S.C. § 271.

Appendix A

In December 1999, this Court, based on Findings of Fact and Conclusions of Law dated November 23, 1999, issued a preliminary injunction against the continued sale of the original fryer (the "1999 Order"). There, the Court concluded that SEB was likely to prove at trial that the original deep fryer literally infringed Claim 1 of the '312 Patent. Accordingly, the defendants were enjoined from "making, using, importing, selling, distributing, advertising, or offering for sale deep fryers which are covered by claim 1 of the ['312 Patent]," as of December 16, 1999.[1] *See* 1999 Opinion, at ¶ 1. The defendants appealed this preliminary injunction to the United States Court of Appeals for the Federal Circuit, which affirmed the Court's decision on November 6, 2000. *See SEB, S.A. v. Montgomery Ward & Co., Inc.*, 243 F.3d 566 (Fed. Cir. 2000).

Subsequent to the issuance of the 1999 Order, Pentalpha developed a new, modified deep fryer, Admiral Model No. 4567703, which was altered to remove the "ring" segments found to infringe the patent in the original product. On March 20, 2001, the Court issued Supplemental Findings of Fact and Conclusions of Law, ruling that this modified deep fryer also likely infringed, under the doctrine of equivalents, the '312 Patent (the "2001 Order"). Familiarity with both prior opinions is assumed.

Here, SEB seeks contempt sanctions against Pentalpha and certain of its affiliates, claiming that all

---

1. The Court stayed the 1999 Order pending appeal until December 21, 1999.

sales of the modified fryer by Pentalpha and its affiliates after November 1999 violated the Court's 1999 Order. In this regard, the Court held an evidentiary hearing on June 12, 2001, where it heard the testimony of two witnesses -- Peter Canelias, Esq., Pentalpha's patent attorney, and Joseph Aglione, a private investigator -- and received documents and transcripts from the parties.

The evidence supplied by the parties demonstrated that shortly after the 1999 Order was issued, Pentalpha sought a legal opinion from Canelias on whether the modified fryer infringed the '312 Patent. In late November 1999, after examining a prototype of the modified fryer, Canelias orally opined that the modifications were sufficient, and that the new modified product would not violate the Court's 1999 Order.

A written opinion was issued on December 8, 1999. *See* Defendant's Exh. 1. There, Canelias claimed to have examined the '312 Patent, the file history, the prototype modified fryer and the Court's initial Findings of Fact and Conclusions of Law. After an description of the patent claim, the prosecution history and the product itself, the opinion engaged in a legal analysis concerning the relevant infringement analysis. Upon completion of the analysis, Canelias again concluded that the modified fryer would not, either literally or under the doctrine of equivalents, infringe the '312 Patent nor violate the Court's 1999 Order.

From December 16, 1999 until March 2001, at which time the 2001 Order was issued, Pentalpha and certain of its affiliates sold roughly 47,000 units of the modified fryer to Montgomery Ward and Fingerhut Corporation.

See Supplemental Declaration of Wendy E. Miller, ¶ ¶ 7-8 and Exh. J-K. The parties do not dispute that within three days of the 2001 Order, all sales of the modified fryer were immediately ceased.

DISCUSSION

SEB contends that the Court should award contempt sanctions against Pentalpha because the sales of the modified fryers that occurred from December 1999 until March 2001 were violative of the 1999 Order. In order to demonstrate contempt, SEB must prove "by clear and convincing evidence that the party violated a clear and unambiguous order of the Court." *City of New York v. Local 28, Sheet Metal Workers' Int'l Assoc.*, 170 F.3d 279, 282 (2d Cir. 1999). Moreover, "[t]he violation need not be willful, but it must be demonstrated that the contemnor was not reasonably diligent in attempting to comply." *Id.* at 283 (internal quotations omitted); *see also Jaeger v. Massis*, 234 F.3d 1262 (2d Cir. 2000); *Equal Employment Opportunity Comm'n v. New York Times Co.*, 196 F.3d 72, 80-81 (2d Cir. 1999).

Assuming that the sales by Pentalpha of the modified fryer violated the 1999 Order, while SEB has produced some evidence that Pentalpha was not reasonably diligent in attempting to comply, the evidence is not sufficiently clear and convincing. SEB cannot escape the fact that Pentalpha sought and received a legal opinion from counsel prior to participating in sales activity with regard to the modified fryer. Although that opinion was contrary to the Court's ultimate conclusion as set forth in its Supplemental

Appendix A

Findings of Fact and Conclusions of Law, its conclusion is, nonetheless, sufficient to support Pentalpha's contention of reasonable diligence. *See, e.g., Amsted Ind. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 182 (Fed. Cir. 1994) (finding that when examining whether a legal opinion insulates a defendant from liability for potentially infringing activity, "[w]hat matters is the nature of that opinion and what effect it had on an infringer's actions.") (internal citations omitted) (internal quotations omitted).

While the mere existence of a legal opinion does not dictate that an infringement was not willful, *see id.*, both the scope of the Canelias opinion and its effect on Pentalpha's conduct are consistent with efforts to engage in lawful activity. As noted, the opinion describes the breadth of materials examined by Canelias, including the patent history and the nature of the fryer's modifications, and includes a reasonably detailed legal analysis before reaching the conclusion that the modified fryer did not infringe the '312 Patent, and that sales of that fryer would not violate the Court's 1999 Order.

Moreover, the record also supports the contention that Pentalpha relied upon Canelias' opinion before selling the modified fryers. First, the timing of the activity is consistent with reliance on the opinion. Once the 1999 Order was issued in November 1999, a modified fryer was sent to and examined by Canelias later that month. An oral opinion of non-infringement was provided in late November, and a written opinion was delivered shortly thereafter on December 8. Sales records indicate that the modified fryers were not sold until December 16,

1999. *See* Supplemental Declaration of Wendy E. Miller, Esq., ¶ 7-8. This timeline is not inconsistent with efforts reasonably trying to comply with the Court's order. In any event, evidence to the contrary is not sufficiently clear and convincing.

Second, SEB does not dispute that John Sham, President of Pentalpha, was informed of counsel's conclusions prior to selling any modified units to Montgomery Ward or Fingerhut. Although SEB points to Sham's admitted failure to read the entire written opinion carefully, for purposes of determining whether there was a violation of a court order, the Court is unaware of -- and, indeed, SEB provides no authority in support of -- any requirement that Sham, a non-lawyer, must analyze, absorb and second-guess his attorney's legal opinion before he may reasonably rely on his conclusions. *See Mac Corp. of America v. Williams Patent Crusher & Pulverizer Co.*, 767 F.2d 882, 885 (Fed. Cir. 1985) ("Civil contempt is a severe remedy, and should not be resorted to where there is a fair ground of doubt as to the wrongfulness of defendant's conduct.") (internal quotations omitted).

In further support for contempt sanctions, SEB argues that Pentalpha's actions "actively induce[d] infringement" of the '312 Patent, in violation of § 271(b) of the U.S. Patent Laws. That provision states, in relevant part that, "[w]hoever actively induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b).

Section 271(b) requires, however, that the plaintiff establish that the defendant "possessed specific intent to encourage another's infringement, and not merely that the defendant had knowledge of the acts alleged

to constitute inducement." *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990); *Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988) (holding that § 271(b) requires a person to "actively and knowingly" aid and abet another's direct infringement). In light of the nature of the legal opinion and its effect on Pentalpha's behavior as discussed above, SEB -- on the current state of the record and for purposes of this contempt proceeding -- fails to show the requisite specific intent necessary to demonstrate active and knowing infringing behavior on the part of Pentalpha. *See, e.g., Micro Chemical, Inc. v. Great Plains Chemical Co., Inc.*, 194 F.3d 1250, 1261 (Fed. Cir. 1999) (finding officer of company not liable under § 271(b) because he took reasonable steps to avoid infringement, particularly since he "sought and relied on the advice of counsel in redesigning the accused machine.").

CONCLUSION

For the foregoing reasons, a finding of contempt is inappropriate at this juncture of the litigation, and plaintiff's motion for contempt sanctions is denied.

SO ORDERED:

/s/
Barrington D. Parker, Jr.
U.S.D.J.

Dated: White Plains, New York
June 26, 2001

APPENDIX B — ATTORNEY OPINION FOR U.S. PATENT NO. 4,995,312

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December 8, 1999

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Mr. Philip D. Delk, Esq.
Montgomery Ward
535 West Chicago Avenue
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PRIVILEGED AND CONFIDENTIAL
THIS DOCUMENT CONTAINS MATERIAL
SUBJECT TO THE ATTORNEY CLIENT
PRIVILEGE AND ATTORNEY WORK PRODUCT

Dear Mr. Sham and Mr. Delk:

You have asked for an opinion concerning a deep fryer, bearing the label "Chef's Mark™ Preferred Quality",

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comparing the product to the claims of United States Patent No. 4,995,312 (the "'312 **Patent**"), to Leiros, issued on February 26, 1991 with the assignee shown as SEB S.A. ("**SEB**"). I have examined the '312 Patent, together with the file history, and have examined the product sample sent to me. [REDACTED]

I. Executive Summary

It is my opinion that the deep fryer model described above does not infringe the '312 Patent, either literally or under the doctrine of equivalents. The product does not have "a ring (5) which joins only the top edge (3a) of the skirt to the top edge (1c) of the pan (1)," as required by the claims of the '312 Patent. The oil pan in the product is supported and elevated at the top by tabs which hold the pan above the plastic covering, creating a circumferential ventilation gap, contrary to one of the functions of the claimed ring, which is that "it completely closes-off the air space between the pan 1 and the skirt 3," (col. 4, lines 51-52). It is also my opinion that the product does not meet the limitation "said skirt (3) being completely free with respect to the pan (1) with the exception of a ring (5) .... " either literally or under the doctrine of equivalents. The product has four supporting columns and a metal bottom piece, where the columns cooperate with the tabs to elevate and

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support the oil pan, thus maintaining the ventilation gap. I therefore conclude that the sample product would not be in violation of the proposed order, which would exclude products that infringe claim 1 of the '312 Patent.

II. The '312 Patent

The '312 Patent is titled "Cooking Appliance with Electric Heating" and is directed to an electric deep fryer. The U.S. application that matured into the '312 Patent was filed on August 28, 1990 as a continuation of application serial no. 488,504 (Mar. 5, 1990) (abandoned) which was a continuation of application serial no. 191,864 (May 9, 1988) (abandoned). The application that matured into the '312 Patent, through the recited chain of applications, claims priority to an application in France dated May 13, 1987. The '312 Patent contains two (2) drawing sheets containing four (4) figures total. The specification concludes with thirteen (13) claims, wherein claim 1 is the only independent claim, and the remaining twelve (12) claims dependent at least on claim 1.

A. Claim 1

Because claim 1 is the only independent claim, and hence the broadest claim in the '312 Patent, the analysis will focus on claim 1 to assess the likelihood that the sample product would infringe the '312 Patent. Claim 1 provides for:

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> 1. An electrical deep fryer comprising a metal pan (1) having a wall, and an electric heating resister (2) that heats said wall directly by conductive heating to a temperature higher than 150° C., said pan (1) being surrounded by a plastic skirt (3), wherein said skirt (3) is of plastic material which does not continuously withstand a temperature of 150° C., said skirt (3) entirely surrounding the lateral wall (1*a*) and the base (1*b*) of the pan and being separated from said wall and said base by an air space (4) of sufficient width to limit the temperature of the skirt (3) to a value which is compatible with the thermal resistance of the plastic material of the skirt (3), said skirt (3) being completely free with respect to the pan (1) with the exception of a ring (5) which joins only the top edge (3*a*) of the skirt to the top edge (1*c*) of the pan and to which this latter is attached, said ring (5) being of heat-insulating material which is continuously resistant to the temperature of the top edge (1*c*) of the pan (1).

B. The Specification

The specification provides that "the pan is attached to the interior of the skirt in such a manner as to ensure that the only contact between said skirt and said pan is

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located at the level of the ring." (Col. 2, lines 3-6). It also provides that "the pan is suspended from said ring which is in turn engaged on the top edge of the skirt, thus ensuring that the pan is reliably attached within the skirt without any thermal bridge other than the very narrow contacts between the edges of the pan, of the ring and of the skirt." (Col. 2, lines 47-52).

As to the functions of the ring, the specification provides that:

> The merit of the present invention lies in particular in the fact that, by virtue of a ring of simple design, there has been found an effective solution to the problem presented. This ring alone carries out all the following functions:
>
> > it defines the spacing between the pan 1 and the external plastic skirt 3,
> >
> > it serves to support and to center the pan 1 within the skirt 3,
> >
> > it completely closes-off the air space between the pan 1 and the skirt 3,
> >
> > it permits free expansion of the pan 1 with respect to the skirt 3,

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> it has the effect of limiting heat transfer between the pan 1 and the skirt 3.

Col. 4, lines 42-56.

C. The Prosecution History

On May 9, 1988, SEB filed its original (grandparent) application. It consisted of one independent claim, 1, and 10 dependent claims, 2-11. On October 14, 1988, the examiner rejected each of the 11 claims in view of U.S. Patent No. 4,672,179 to Onishi, stating that:

> Claims 1-6 and 8 are rejected under 35 U.S.C. 102(a) as being anticipated by Onishi et al.
>
> The patent to Onishi et al discloses a cooking apparatus comprising a metal pan 7a having a peripheral annular support flange 6, a electrical heating element 8a and a surrounding plastic skirt 1, 2. Said pan is covered by a metal lid which is in turn connected to a plastic lid 27 (with an airspace 34 located therebetween). The metal pan's support flange 6 seat upon the L-shaped plastic ring 4. Ring 4 has annular groves into which the peripheral wall 1 and 2

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> seat. The base of the pan sits upon pin 14, 15 that has a heat protecting sleeve 9 biased for upward movement against the pan 7a via the spring 11.

In an amendment dated February 14, 1989, SEB withdrew claim 1 and substituted a new claim, 12. SEB also submitted a statement of why that amendment overcame the October 14, 1988 rejection:

> Accordingly, applicant's deep fryer comprises as stated in claim 12 an external plastic skirt 3 which is *separated* from the external metal wall of the pan 1 by an air space 4 of sufficient width to limit the temperature of the skirt 3 to a value which is comparable with the thermal resistance of the plastic material of said skirt 3. (Emphasis in original).
>
> Said skirt 3 is thus completely free with respect to the pan 1 with the exception of a ring 5 which supports the pan and thus constitutes the sole contact between the pan and the outer plastic skirt. Said ring 5 is of heat insulating material which withstands continuously the temperature of the top edge of the pan 1.

* * *

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> Furthermore in ONISHI et al.'s appliance, the two walls 1 and 3 are separated by an adiabatic material 2 (whose nature is not specified) whereas in the present invention the outer plastic skirt 3 is completely free with respect to the pan 1 with the exception of a ring 5. This means that the space comprised between the skirt 3 and the pan 1 is entirely occupied by air and that there is no solid material therebetween.

Concerning the "ring" limitation in the claims, applicant further stated in its remarks, in near identical form to that set out in the specification, that:

> This ring alone carries out all the following functions:
>
> - it defines the spacing between the pan 1 and the external plastic skirt 3,
>
> - it serves to support and to center the pan 1 within the skirt 3,
>
> - it completely closes off the *upper end* of the air space between the pan 1 and the skirt 3,

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> - it permits free expansion of the pan 1 with respect to the skirt 3,
>
> - it has the effect of limiting heat transfer between the pan 1 and the skirt 3.

The emphasis is supplied to distinguish this remark from the nearly identical representation made in the specification as noted above, which states that the ring alone "completely closes-off the air space".

In a preliminary amendment dated August 28, 1990 filed in a continuation, the applicant disclosed a Spanish reference, utility model 290,283, and made the following representations to the examiner to distinguish the Spanish reference:

> The Spanish reference, Utility Model 290,283, attached hereto, discloses a device in which the space between the inner and outer walls is *cooled* by circulation induced through openings in the outer walls. It is still possible for the user to become burned upon touching a portion of the device thus heated by the air whose circulation is induced past the hot inner wall. Accordingly, this arrangement does not suggest the present invention. (Emphasis in original).

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III. The Product

The modified product that I have examined is a table top deep fat fryer unit, bearing the label "Chef's Mark™ Preferred Quality". The packaging indicates that the product is marketed outside of the United States. The packaging also indicates a model no. SC-181, sold as the Scarlett England Deep Fryer. I have addressed those features in relation to the specific claim elements to which they most likely correspond.

In general, the product has an oil pan made from a metallic material. Within the oil pan is a basket to which is attached a folding handle, the handle allowing the user to raise and lower the basket. The oil pan is mostly encompassed by a plastic material, the thermal properties of which are unknown. The pan rests, *inter alia,* on five (5) tabs, which appear to be formed of a plastic-type material, and are slotted to receive corresponding plastic projections formed as part of the outer plastic material. The five tabs in turn are removably joined to the plastic projections. Each tab has two (2) bosses on their respective top surfaces to aid in securing the top edge of the pan to the tabs. In addition to being supported by the tabs, the pan also rests on four column supports which are secured to projections in the bottom of the outer plastic covering. There is also a metal plate secured in the area between the bottom of the pan and the bottom of the plastic covering.

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The pan is secured in its bottom center to the plastic covering by means of a bolt. The bolt, in combination with the tabs and the support columns, rigidly fixes the pan to the outer plastic cover.

When in place within the outer plastic covering, the pan is elevated and supported by the tabs and column supports so that the upper, downwardly turned lip of the pan does not contact the plastic covering. The elevation of the pan creates a circumferential ventilation gap between the top edge of the pan and the top edge of the outer plastic covering. The bottom of the product is equipped with six (6) L-shaped feet which support the unit, each foot, at its connection point with the plastic covering, proximate to a respective rectangular opening in the plastic covering, the openings in fluid (air) communication with the space between the plastic covering and the pan and with the circumferential ventilation gap.

IV. Infringement Analysis

To infringe a patent, and be liable for such infringement, infringement of only one valid and enforceable patent claim is required. *Bio-Technology General Corp. v. Genentech, Inc.*, 80 F.3d 1553, 38 USPQ2d 1321 (Fed. Cir. 1996), *cert. denied*, 117 S. Ct. 274 (1997). This analysis focuses on claim 1, the only independent claim and the broadest claim of the '312 patent. This is because dependent claims, such as

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claims 2-13, incorporate by reference all of the limitations of the claim from which they depend (here at least claim 1). 35 U.S.C. § 112 ¶ 4. *See Bloom Engineering Co., Inc. v. North American Manufacturing Co., Inc.*, 129 F.3d 1247, 44 USPQ2d 1859 (Fed. Cir. 1997).

The infringement analysis entails two steps: The first step is determining the meaning and scope of the patent claims asserted to be infringed, and the second step is comparing the properly construed claims to the accused device. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 34 USPQ2d 1321 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370, 38 USPQ2d 1461 (1996).

A. Step 1 - Claim Construction

Generally, claims are construed independent of the accused product, in light of the specification and the prosecution history.

Critical limitations[1] are found in the latter part of claim 1, specifically that "said skirt (3) being completely free with respect to the pan (1) with the exception of a ring (5) which joins only the top edge (3*a*) of the skirt

1. I note that there are a number of claim limitations that lack antecedent basis, such as "the lateral wall (1*a*) and the base (1*b*) of the pan and being separated from said wall and said base".

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to the top edge (1c) of the pan and to which this latter is attached, said ring (5) being of heat-insulating material which is continuously resistant to the temperature of the top edge (1c) of the pan (1)."

The applicant defined the limitation of "completely free with respect to the pan" as meaning; "the only contact between said skirt and said pan is located at the level of the ring." (Col. 2, lines 3-6). The applicant further represented to the PTO, in distinguishing over the prior art, that "in ONISHI et al.'s appliance, the two walls 1 and 3 are separated by an adiabatic material 2 (whose nature is not specified) whereas in the present invention the outer plastic skirt 3 is completely free with respect to the pan 1 with the exception of a ring 5. This means that the space comprised between the skirt 3 and the pan 1 is entirely occupied by air and that there is no solid material therebetween." The applicant further represented that "[s]aid skirt 3 is thus completely free with respect to the pan 1 with the exception of a ring 5 which supports the pan and thus constitutes the sole contact between the pan and the outer plastic skirt." Based on the claim language read in view of the specification and the prosecution history, I would construe the limitation "completely free" as being precisely what the applicant represented, i.e., that the space comprised between the skirt and the pan is entirely occupied by air and that there is no solid material therebetween. The applicant gave up

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any different construction through its representations to the examiner, and should be estopped from using claim interpretation to enlarge the claims to encompass that which was disclaimed in the prosecution history.

[REDACTED]

I have construed claim 1 of the '312 Patent consonant with the construction of the "completely free" limitation found in the findings of fact and conclusions of law that I have reviewed, construing the above limitation to mean "completely free" except to necessarily read on a preferred embodiment recited in the detailed description portion of the specification. *See Burke, Inc. v. Bruno Independent Living Aids, Inc.*, 183 F.3d 1334 (Fed. Cir. 1999). *But see Renishaw PLC v. Marposs Societa' Per Azioni*, 158 F.3d 1243, 48 USPQ2d 1117 (Fed. Cir. 1998) ("[N]o canon of construction is absolute in its application.").

The '312 Patent shows a "detailed description of the invention" which includes a "vertical rod **19**", separated by "a sleeve **23** of heat-insulating and heat-resistant material" with a "spring **25**, said spring being applied against the edge of the opening **20** which is remote from the pan **1**. This arrangement serves to compensate for manufacturing tolerances as well a dimensional variations caused by heat expansion." Col. 3, lines 55 -65. In the detailed description, applicant further states that "in addition to the fact that

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the skirt 3 is practically free with respect to the pan 1 or in other words that no thermal bridge is created between the pan and the skirt, this latter can be fabricated from inexpensive ordinary-grade material which does not afford resistance to high temperatures, thus permitting low cost production of the fryer."

Thus, according to the construction in the findings of fact and conclusions of law "completely free" is construed so as to cover the rod in addition to the ring, as well as the other two points of contact noted in the findings and conclusions, i.e., a heating element and a thermostat (*see* ¶ 36). This construction was phrased in terms of the absence of "thermal bridges", a term which does not appear in the claims, and thus is not itself susceptible of construction. *Renishaw PLC v. Marposs Societa' Per Azioni*, 158 F.3d 1243, 48 USPQ2d 1117 (Fed. Cir. 1998) ("[A] claim must explicitly recite a term in need of definition before a definition may enter the claim from the written description."). An additional consideration, however, is that the limitation should be construed to comport with the ring limitation, in that contacts between the pan and the plastic skirt should not interfere with or obviate the functions of the ring, including the ring's recited capacity to limit heat transfer (thermal bridges) between the pan and the skirt. The ring limitation was not construed in the findings of fact and conclusions of law as this was apparently not at issue at the time, nor was

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the "completely free" limitation construed apart from the function of thermal insulation. This limitation, therefore, consonant with the District Court's interpretation for purposes of this opinion, is construed to be consistent, as far as possible, with the balance of the claim limitations appearing in claim 1, in that the pan must be completely free with respect to the skirt of any structure that would interfere with or obviate the functions of the recited ring.

The "ring" limitation is recited in claim 1 as follows: "a ring (5) which joins only the top edge (3*a*) of the skirt to the top edge (1*c*) of the pan and to which this latter is attached, said ring (5) being of heat-insulating material which is continuously resistant to the temperature of the top edge (1*c*) of the pan (1)." Construing the claim in accordance with the specification and the prosecution history, the ring joins only the top edge of the skirt to the top edge of the pan and to which this latter is attached; the ring is made of an insulating material which continuously resists the temperature of the top edge of the pan; it serves to support and to center the pan within the skirt; it provides a sealing attachment of the pan to the skirt so as to close off the air space between the pan and the skirt; it permits free expansion of the pan with respect to the skirt; and it limits heat transfer between the pan and the skirt.

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B. Step 2 - Application of the Construed Claim to the Product

To establish infringement, every limitation (element) in the claim must be found in the accused product either exactly (literally) or by an equivalent. *Laitram Corp. v. Rexnord, Inc.*, 939 F.2d 1533, 19 USPQ2d 1367 (Fed. Cir. 1991). *See Warner-Jenkinson Co., Inc. v. Hilton Davis Chemical Co.*, 117 S. Ct. 1040, 41 USPQ2d 1865 (1997).[2]

Even where the limitation "completely free" is construed to allow the contacts disclosed in the specification, the supporting columns in the product preclude literal infringement of the "completely free" limitation. Again, this is according to the claim construction apparent from the findings of fact and conclusions of law that I have reviewed, and adopted only for the purpose of this opinion, together with a construction that allows the completely free limitation to coexist with the ring limitation in the claim where possible. The columns (and the metal sheet) interfere with the capacity of the ring to thermally

---

2. In applying the claim limitations to the sample product, I have focused on what I believe to be the clearest indications of non-infringement. Such focus is not a limitation on additional evidence or arguments that may be presented as to non-infringement. Further, I do not opine on the thermal resistance properties of the plastic material used in the product because I do not have that information.

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insulate the surrounding plastic cover, and rigidly support the pan with respect to the skirt, i.e., prevent the ring from functioning to permit free expansion of the pan with respect to the skirt. They also cooperate with the tabs to prevent closure of the upper end of the air space between the pan and the skirt. Thus I believe that the "completely free" limitation is not literally present in the sample product.

Application of the limitation of the ring to the product shows that the product does not have a ring, as that limitation is properly construed. The product does not contain, literally, a ring which "joins only the top edge (3*a*) of the skirt to the top edge (1*c*) of the pan and to which this latter is attached, said ring (5) being of heat-insulating material which is continuously resistant to the temperature of the top edge (1c) of the pan (1)." The absence of this limitation in the product also precludes literal infringement of the '312 Patent.

1. Doctrine of Equivalents

Having determined that the "completely free" and "ring" limitations are not literally met in the product, I also believe that the product does not contain substantial equivalents of these limitations. To be a substantial equivalent, an element ordinarily must perform substantially the same function, in substantially

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the same way, to achieve substantially the same result as the claimed element. *See Warner-Jenkinson Co., Inc. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 117 S. Ct. 1040, 41 USPQ2d 1865 (1997).

It is my opinion that the column supports do not perform the same function in the same way to achieve the same result as the "completely free" limitation nor are they the equivalent of any of the contacts shown in the specification. The existence of the columns contacting both the pan and the plastic covering, with the interposition of a metal sheet between the pan and the bottom of the plastic covering are clearly not the functional equivalents of the claim limitation. The columns cooperate with the tabs to elevate, support and ventilate the pan of the product, and to rigidly fix the pan to the plastic covering, inhibiting expansion of the pan independent of the plastic covering. To apply the claim in such a way as to encompass these elements would effectively read the "completely free" limitation out of the claims, which is prohibited. *Warner-Jenkinson v. Hilton Davis*, 117 S. Ct. at 1049, 41 USPQ2d at 1871 ("It is important to ensure that the application of the doctrine [of equivalents], even as to an individual element, is not allowed such broad play as to effectively eliminate that element in its entirety.").

As to the ring limitation, clearly the five tabs do not fall within the function-way-result test, as the circumferential

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ventilation gap provided by the tabs is directly contrary to one of the stated functions of the ring in the claimed device, i.e., to close off at least the top end of the air gap between the plastic skirt and the pan. The product allows air to circulate from the openings in the bottom of the plastic covering, through the air space, and through the circumferential ventilation gap at the upper end of the plastic covering. The advantages of this cooling mechanism are balanced against the disadvantage of heat loss and excess power consumption. The avoidance of such heat loss and excess power consumption are cited as benefits of the claimed invention by the applicant. Col. 2, lines 15-18; col. 4, lines 24-27. Thus, the structures found in the product are not an equivalent of the ring limitation of the claims.

(a) Prosecution History Estoppel

Irrespective of the application of the tri-partite test, prosecution history estoppel prevents a patentee from reclaiming under the doctrine of equivalents subject matter given up to obtain the patent. In this regard, "[a]rguments made during the prosecution of a patent application are given the same weight as claim amendments." *Elkay Manufacturing Co. v. Ebco Manufacturing Co.*, 192 F.3d 973, 52 USPQ2d 1109, 1113 (Fed. Cir. 1999). As noted above, the applicant made the following representations to the examiner to overcome a rejection over the prior art:

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> Said skirt 3 is thus completely free with respect to the pan 1 with the exception of a ring 5 which supports the pan and thus constitutes the sole contact between the pan and the outer plastic skirt.

Applicant further stated that "the space comprised between the skirt 3 and the pan 1 is entirely occupied by air and that there is no solid material therebetween." Thus, even construing the claim to encompass the particular embodiment shown in the drawings, the applicant disclaimed any further contact between the pan and the plastic skirt. I believe that SEB would be estopped from extending the scope of the claim to cover a product that has four support columns between the pan and the plastic covering.

As to the ring limitation, the applicant expressly argued over the Spanish reference which disclosed a device in which "the space between the inner and outer walls is *cooled* by circulation induced through openings in the outer walls." (Emphasis in original). The applicant declared that "this arrangement does not suggest the present invention." The applicant further distinguished its ring by arguing that "[t]his ring alone carries out all the following functions: ... - it completely closes off the *upper end* of the air space between the pan 1 and the skirt 3 ...." Emphasis supplied. I believe that these arguments

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clearly estop SEB from claiming a device that is cooled by a ventilation gap at the upper end of the air space between the pan and the plastic covering.

V. Conclusion

For the above reasons, without limitation as to other possible grounds for non-infringement, I conclude that the product described above does not infringe the claims of the '312 Patent, either literally or by equivalents. Based on this conclusion, and based on the proposed preliminary injunction order prohibiting the sale of articles which infringe claim 1 of the '312 Patent, [REDACTED]

Very truly yours,

/s/
Peter S. Canelias

APPENDIX C — EXCERPTS OF CLOSING ARGUMENT

[883] THE COURT: I am not going to waste your time with my comments. We are going to go straight into summations, starting with the defendants. Since the plaintiff has the burden of proof, the defendants will sum first, and then the plaintiff will have the last opportunity to speak to you until my charge.

Mr. Dunnegan.

MR. DUNNEGAN: Your Honor.

In my opening I told you that I was going to prove three things. I told you I was going to prove first that the products Pentalpha sold didn't infringe SEB's patent. Second, I told you that Pentalpha operated out of Hong Kong and didn't commit any act that should allow SEB to recover any damages under the United States patent laws. And third, I told you that at best for SEB, its damages would be a [884] modest reasonable royalty.

Now I'm going to go through the evidence and explain to you how I've proven each of those things to you.

* * *

[898] My second point is that Pentalpha didn't infringe the SEB patent because Pentalpha didn't do anything that caused any damage to SEB under the United States patent laws. Now, Pentalpha didn't sell any deep fryers in the United States. Has SEB showed you any evidence that Pentalpha sold a deep fryer within the limits of this country?

The answer is no.

[899] John Sham testified consistently, and without contradiction, that Pentalpha sold the deep fryers free on board -- that's the "F.O.B." term in the books that we gave you, which had the invoices in them -- a ship in Hong Kong or in China.

The documents consistently demonstrate that Mr. Sham's testimony is correct. Look at Exhibits, in your book, which are E, AK, BY, CA, CB. It's the first page of a set of invoices which are in evidence.

Now, is it possible that there could, in some commercial transactions, be a case where the F.O.B. term on the invoice or on the purchase order isn't controlling? Perhaps. But that's not the situation here.

The situation here is that the reality of the commercial transaction was, the risk of loss of these goods took place, from Pentalpha to Pentalpha's customer, when they went over the rail of the ship, which was docked at some port in either Hong Kong or China. It certainly wasn't in the United States. There's no evidence suggesting anything else.

Now, let's spend a moment talking about offers to sell. Now, offers to sell I don't think are going to be very important in this case, because, as Mr. Newman told you, royalties are based upon net sales. There's no evidence that royalties can be based upon an offer to sell. But let me spend a few minutes talking about the offers for sale on [900] which we have evidence in this case.

Appendix C

Now, the only offers to sell, on which I believe we have evidence, occurred in June and October of 1997, when Pentalpha entered into a product supply agreement to cover 50 models, 50 models of products for 14 different products. Those agreements were signed with Sunbeam.

And at the time of the first agreement, which is Exhibit 11, Pentalpha had already locked up the deep fryer business with Sunbeam. In other words, Sunbeam was going to keep buying deep fryers from Pentalpha regardless of whether Pentalpha entered into yet an additional contract concerning the many, many products it concerned.

Here is why. Pentalpha owned the tooling for the deep fryers. John Sham testified that Pentalpha had spent more than $200,000 for the tooling to build them. That was both injection mold tooling for the plastic parts and die cast molding for the metal pan.

Sunbeam had no incentive to leave Pentalpha and try to buy its deep fryers from someone else at a later time, as long as Pentalpha kept selling them or wanted to sell them, because if Sunbeam did that, Sunbeam has to confront the issue of where do we get the tooling. Pentalpha owned the tooling. Sunbeam couldn't tell Pentalpha, "hey, go ship it to your competitor who we want to buy it from." Sunbeam would be at square one, either buying the tooling itself or [901] paying the premium for additional tooling which had to be constructed in the future.

Now, these contracts with Sunbeam, which were signed in the United States, didn't result of the sale

-- didn't result in the sale of any more deep fryers by Pentalpha, and therefore didn't cause any more damage to SEB.

Now, the other person whose name has come up during the testimony is Dan Mullins. However, I suggest to you that the evidence does not show that he was making any offer to sell the deep fryer or any other products to Pentalpha's customers. Dan Mullins, Mr. Sham testified, was simply introducing potential customers to Pentalpha. There's no evidence from Fingerhut that Dan Mullins made an offer to sell any specific product or any specific deep fryer to it.

* * *

[905] There also cannot be any inducement of infringement with respect to the sales of Montgomery Ward. I do not believe -- I believe you can find that there is no evidence in the record that Montgomery Ward ever sold any of the deep fryers in the United States.

Montgomery Ward went out of business a long time ago. The deep fryers that were sold to Montgomery Ward were built for the North American market, not simply for the United States market. SEB didn't prove – didn't produce any proof that these deep fryers were sold at any time in the United States.

So that's my second point. Pentalpha sales don't have enough of a connection to the United States to make [906] Pentalpha liable for infringement.

* * *

Appendix C

[914] Ladies and gentlemen, you have been here for too [915] long. I have been here for too long. It's time for me to stop, but before I stop --

THE COURT: Well, they haven't been here too long because they haven't heard from me yet.

MR. DUNNEGAN: With that caveat, it's time for me to shut up, but before I do, I wanted to thank you for your, your patience, your attentiveness, your promptness in getting here, and I wanted to especially thank you for your smiles. Have a great day.

THE COURT: Thank you, Mr. Dunnegan.

MR. DUNNEGAN: Thank you, Your Honor.

* * * *

AMICUS CURIAE BRIEF

No. 10-6

IN THE

Supreme Court of the United States

GLOBAL-TECH APPLIANCES INC., *et al.*,
Petitioners,

v.

SEB S.A.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE*, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF RESPONDENT

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STATEMENT OF INTEREST [1]

The American Intellectual Property Law Association (AIPLA) is a voluntary bar association of approximately 16,000 members engaged in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property.

AIPLA members represent both owners and users of intellectual property. As part of its central mission, AIPLA advocates for clarity in U.S. intellectual property law so that all who rely on these laws will understand their rights and obligations. It also advocates for laws that support intellectual property rights without unduly burdening legitimate commerce in the belief that such laws are tools of innovation — not impediments to it.

[1] In accordance with Supreme Court Rule 37.6, this brief was not authored, in whole or in part, by counsel for a party, and no such counsel or party made any monetary contribution to fund the preparation or submission of this brief. The parties have consent to the filing of this brief.

After reasonable investigation, AIPLA believes that (a) no member of its Board or *Amicus* Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter, (b) no representative of any party to this litigation participated in the authorship of this brief, and (c) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

SUMMARY OF ARGUMENT

AIPLA has two primary concerns with the state of induced infringement law in the wake of *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360 (Fed. Cir. 2010). First, the *SEB* decision confused, rather than clarified, the standard for inducing infringement by coupling intent-based language with language more akin to a negligence-based approach, thereby creating issues of precedential clarity. The *SEB* court sought to work within the constraints of *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1304-06 (Fed. Cir. 2006), an *en banc* decision that purported to follow this Court's reasoning in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), by fashioning an intent-to-infringe approach to inducing patent infringement with what it called "deliberate indifference to patent rights." 471 F.3d at 1303-06; *see Manville Sales v. Paramount Sys., Inc.*, 917 F.2d 544 (Fed. Cir. 1990). In so doing, the *SEB* court confused the state of the law.

Second, to the extent the *SEB* court set forth a standard of liability for inducing infringement, that standard should not require knowledge of a patent violation on the part of the inducer. A knowledge standard runs contrary to Congress's intent as expressed in the 1952 Patent Act (the "1952 Act"). The difficulty that the *SEB* court experienced in imposing liability for the blameworthy conduct of the inducing defendants here highlights the shortcomings of the *DSU* formulation. At a foundational level, AIPLA questions the provenance and wisdom of a law of inducement liability that requires proof that the inducer — in addition to actively encouraging the underlying acts of infringement — know that those acts will infringe a valid patent. Engrafting such a

knowledge component onto 35 U.S.C. § 271(b) effectively rewrites the statute, a prerogative reserved for Congress. The correct approach would find inducement liability for conduct intended to cause the underlying acts of infringement, thereby protecting valuable patent rights without absolving from liability those who encourage or induce infringement. *See Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990).

Requiring proof of knowledge of a patent violation in addition to proof of intent to cause the underlying acts of infringement is inadvisable from a policy perspective because such a heightened burden would be inconsistent with the strict liability framework of direct infringement. Direct infringement under 35 U.S.C. § 271(a) has no requirement that an infringer know of a patent before being held liable for infringement.[2] It would be incongruous to hold direct infringers liable without regard to knowledge of the patent violated while immunizing those who encouraged those very infringing acts.

Reducing the scope of liability of § 271(b) in this way would create a sizeable hole in patent rights protection. Induced infringement scenarios typically involve method patents, where an inducer supplies the equipment that can be used to infringe and instructs a customer/end user how to engage in the use that directly infringes. In these situations, direct infringement by the end user is undisputed, but combating this infringement by suing the end users is a largely empty gesture because it is typically

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[2] Knowledge only becomes relevant when seeking extra-compensatory damages for willful infringement under 35 U.S.C. § 284 (2010).

economically infeasible to assert direct actions against individual users. The alleged inducer, however, stands to profit considerably from the widespread direct infringement precisely because the product sold is capable of an infringing use.

To require knowledge of a patent violation in order to hold active inducers liable for infringement would undermine the purpose of granting patent rights by encouraging the practice of ignoring patents altogether. The savvy manufacturer would avoid patent reviews at all costs to remain willfully ignorant and thus immune from inducement liability. Congress enacted patent laws to grant a limited monopoly to inventors in exchange for publishing their inventions to advance the state of the art. This regime poorly serves the public if industry can evade inducement liability by simply turning a blind eye to advances in the state of the art found in patents.

The statutory language of § 271(b) and the policies behind the patent laws support a standard that focuses only on active inducement -- encouraging, instructing and marketing to produce the acts that give rise to the infringement. At its core, the inducement statute should prohibit the active encouragement of conduct that will result in patent infringement; adding further limits on the scope of this provision erodes its protections. An interpretation of § 271(b) that requires an intent to induce the underlying acts of infringement without more will at once resolve the ambiguity of *SEB* and correct the wayward course taken by the *DSU* court in applying *Grokster*.

ARGUMENT

I. BY ITS LITERAL TERMS, 35 U.S.C. § 271(b) CONTAINS NO REQUIREMENT THAT THE INDUCER KNOW THAT THE ACTS INDUCED WILL VIOLATE PATENT RIGHTS.

In drafting broadly the prohibition against inducing patent infringement, codified at 35 U.S.C. §271(b), Congress encompassed the myriad circumstances in which actors may encourage infringement by others:

> Whoever actively induces infringement of a patent shall be liable as an infringer.

35 U.S.C. § 271(b) (2010). This statute does not contain any qualifying or limiting expression related to the intent or knowledge of the inducer to violate a patent right.[3]

While worded broadly, the "actively induces" standard of § 271(b) imposes substantial hurdles before finding liability. Active inducement requires proof of "statements and actions directed to promoting infringement . . . ." *Grokster*, 545 U.S. at 935. This type of proof will prevent liability for "the equivocal conduct of selling an item with substantial lawful use" without requiring proof of actual knowledge on the part of the inducer. *Id.* at 933.

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[3] In contrast, 35 U.S.C. § 271(c) contains explicit knowledge language, and the Court in *Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc.* interpreted that knowledge to include knowledge of a patent infringement, 377 U.S. 476, 478-79 (1964), indicating Congress's awareness of the availability of a requirement, and its ability to include such a requirement if warranted.

The overall purpose of the 1952 Act was to codify the existing common law of patents, including those principles of contributory infringement that include inducing infringement.[4] *See Aro Mfg.*, 377 U.S. at 485 n.6 (1964) (noting that § 271 was intended to codify principles that had been part of the common law for the preceding 80 years) (citing H.R. Rep. No. 82-1923, at 9 (1952), and 1952 U.S.C.C.A.N. 2402 (statement of Rep. Rogers)). The late Judge Giles Rich, one of the drafters of these statutory provisions, explained that one of the benefits of this codification is that it would "resurrect" contributory infringement principles (including inducement of infringement) found in cases that had been limited in pre-1952 patent misuse cases. Giles S. Rich, Infringement under Section 271 of the Patent Act of 1952, 21 Geo. Wash. L. Rev. 521, 536 (1953). In his blunt assessment, the important issue of contributory and induced infringement existed in the common law as a theoretical construct, but in practice it was "*entirely dead.*" *Id.*

Congress enacted the broad formulation of § 271(b) as part of the 1952 Act. As demonstrated above, Congress was explicitly aware of the issue of knowledge and deliberately omitted any such knowledge requirement in the Act. Further, the Senate specifically reported the need for a broadly worded statute to prohibit induced infringement in support of the bill as enacted:

> One who makes a special device constituting the heart of a patented machine and supplies it to others with directions (specific or implied) to

---

[4] Prior to the 1952 Act, courts generally referred to what would now be considered induced infringement as a category of contributory infringement.

> complete the machine is obviously appropriating the benefit of the patented invention. It is for this reason that the doctrine of contributory infringement, which prevents appropriating another man's patented invention, has been characterized as "an expression both of law and morals." Considerable doubt and confusion as to the scope of contributory infringement has resulted from a number of decisions of the courts in recent years. The purpose of this section is to codify in statutory form principles of contributory infringement and at the same time eliminate this doubt and confusion. Paragraph (b) ***recites in broad terms*** that one who aids and abets an infringement is likewise an infringer.

S. Rep. No. 82-1979, at 8 (1952) (citation omitted in original; emphasis added).

The pre-1952 precedent that enunciated principles of contributory and inducing infringement supports a broad prohibition against active inducement. With respect to the precedent of this Court, these principles must be gleaned with a measure of caution due to the variation in the treatment of patent rights generally (compare *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), with *Motion Picture Co. v. Universal Film*, 243 U.S. 502 (1917)). Also of significance is the endorsement of conduct later rendered unlawful under the Clayton Act, and the criticism of conduct under the patent misuse doctrine (*e.g.*, *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944)) that Congress later legislated as lawful through 271(d). It is against this backdrop that Judge Rich considered contributory infringement a dead doctrine in need of revival.

Accepting these cautions, a very early decision of this Court found contributory infringement where there was no finding of knowledge by the alleged contributory infringer of the patent in suit. In *Cotton-Tie Co. v. Simmons*, 106 U.S. 89 (1882), this Court reviewed an alleged contributory infringement of patents claiming the use of certain buckles as fastening ties for bales of cotton. The cotton baling tie appliance had a license restriction stamped into the buckle ("licensed to use once only") and the court did not discuss whether the buckle contained any patent references or markings (at the time there were no "marking" requirements under patent law). This Court held, "[b]ecause the defendants prepare and sell the arrow tie, . . . ***intending*** to have it used to bale cotton and to produce the results set forth in the . . . patents, they infringe those patents." *Id.* at 95 (emphasis added) (citing *Saxe v. Hammond*, 1 Holmes 456, 21 F. Cas. 593 (C.C. Mass. 1875) (No. 12,411); *Bowker v. Dows*, 3 Banning & Arden, 518, 3 F. Cas. 1070 (C.C. Mass. 1878) (No. 1,734). This Court did not discuss in its finding of infringement whether the defendants knew of the patents in question. This Court was also careful in *Cotton-Tie* to differentiate this wrongful conduct from what it considered legitimate commerce: "We do not decide that they are liable as infringers . . . merely because they sold the buckle considered apart from the band or from the entire structure as a tie." *Id.* This holding is consistent with an interpretation of 271(b) that does not require knowledge of the patent infringed.

The approach in *Cotton-Tie* also comports with the approach taken in the lower courts of the time. For example, in *Thomson-Houston Electric Co. v. Ohio Brass Co.*, 80 F. 712 (6th Cir. 1897) — one of the cases cited by this Court in *Grokster* to supply the

patent law antecedents for contributory copyright infringement — the court noted that a claim for inducing patent infringement required no greater proof of knowledge than in the case of direct infringement:

> It being established that defendant is offering for sale articles, intending them to be used in combination which, if unlicensed by complainant, would be infringements of complainant's patents, we think that it is the duty of the defendant to see to it that such combinations which it is intentionally inducing and promoting shall be confined to those which may be lawfully organized. ***We are unable to see why any different rule should be applied in such a case from that applicable to a case in which a defendant makes a patented machine to order.***

80 F. at 723 (emphasis added). As the *Thomson-Houston* court observed, once there is intentional inducing and promoting of a use that turns out to be infringing, a party is just as liable as it would be for direct infringement. The *Thomson-Houston* court noted that its ruling applied only where the alleged inducer "is offering the parts with the purpose that they shall be used in the patented combination." *Id.* Section 271(b) fully accords with the prescription described in *Thomson-Houston*, and does not unduly limit liability solely to those situations where an accused inducer actually knew that the use is infringing a valid patent.

The appropriate standard should be consonant with the approach taken by the Federal Circuit in *Hewlett-Packard*. The *Hewlett-Packard* court considered "proof of actual intent to cause the acts which constitute the infringement," to form "sufficient culpability" to impose liability. 909 F.2d at 1469.

This formulation accords with that endorsed in *Thomson-Houston* almost a century before. The *Hewlett-Packard* court reviewed pre-1952 cases and noted that they imposed liability for indirect infringement for "any other activity where, although not technically making, using or selling, the defendant displayed sufficient culpability to be held liable as an infringer." *Id.* (citing *Thomson-Houston*, 80 F. at 721, and *Henry v. A.B. Dick Co.*, 224 U.S. at 33-34). The *Hewlett-Packard* formulation fully accords with the broad scope of § 271(b) and should be helpful to this Court in determining the appropriate liability formulation for inducing infringement.

II. THIS COURT'S REVERSAL OF THE NINTH CIRCUIT'S "SPECIFIC KNOWLEDGE" REQUIREMENT IN *GROKSTER* SUPPORTS THE APPROACH ENDORSED BY AIPLA.

In *Grokster*, this Court applied tenets of patent law to the common law of induced copyright infringement. In doing so, this Court did not undertake an in-depth analysis of those patent law tenets, nor did it focus on their unsettled nature. In referring to patent cases discussing inducement of infringement, the Court, whether by design or not, did not cite to the *Hewlett-Packard* or *Manville* cases in the Federal Circuit that frame the differences in approach with respect to knowledge of patent infringement. Nor is there any indication that any party brought to the Court's attention the unsettled state of the law of inducing patent infringement.[5]

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[5] Knowledge of a violation of patent rights as an element of inducing infringement was not clearly established in the law at the time of the *Grokster* decision. To confirm this point, one

Viewed properly, *Grokster* defines the contours of the "active inducement" prong of inducing infringement and does not concern itself with knowledge of actual copyright violations. In adapting patent law tenets of inducing infringement to copyright law, this Court noted:

> "[A]ctive steps . . . taken to encourage direct infringement," such as advertising an infringing use . . . show an affirmative intent that the product be used to infringe, and a showing that the infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use.

Grokster, 545 U.S. at 936 (citation omitted). This passage focuses on the nature of the acts of inducement. The "purposeful, culpable expression and conduct" highlighted in *Grokster* was the encouragement, through advertising, *etc.*, of the acts — the downloading of music files. *Id.* at 937. This definition of "purposeful, culpable" conduct is consistent with the patent cases cited to establish the support for contributory copyright infringement. *See, e.g.*, *Thomson-Houston*, 80 F. at 723. The affirmative intent required to overcome the "law's reluctance" is focused on the active steps, through advertising and otherwise, taken to encourage acts that will infringe when performed; the distinction between culpable

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need look no further than *DSU*, an *en banc* decision of the Federal Circuit wherein ten members of the court believed that there was a split within the circuit going back to 1990 with respect to *Hewlett-Packard* and *Manville*. See *DSU*, 471 F.3d at 1311 (Michel, C.J., concurring) (stating that the *en banc* majority reads *Hewlett-Packard* as being in conflict with *Manville* and disagreeing with this conclusion).

conduct and legitimate commerce lies in the acts of inducement, not in knowing about a particular violation of a patent (or copyright).

While this Court did not delve directly into the confusion in the law of inducing patent infringement, it gave a strong signal that a standard requiring a knowledge–of–patent–violation is inappropriate. In reversing the decision of the Ninth Circuit, this Court rejected the "specific knowledge of copyright infringement" requirement applied by the appellate court. This Court found that the Ninth Circuit incorrectly read *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), "to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use, . . . even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product, unless the distributors had 'specific knowledge of the infringement at a time at which they contributed to the infringement, and failed to act upon that information.'" *Id.* at 934 (citing *Metro-Goldwyn-Mayer Studios v. Grokster*, 380 F.3d 1154, 1162 (9th Cir. 2004). *Sony* held that where there was no evidence of "stated or indicated intent to promote infringing uses," and where the technology was capable of substantial non-infringing use, "the manufacturer could not be faulted solely on the basis of its distribution." *Grokster*, 545 U.S. at 931-32. More than mere distribution, thus, was required to find inducement of infringement.

In reversing, this Court held that a "specific knowledge of infringement" requirement imposed too high a burden for finding contributory copyright infringement in cases where there were substantial non-

infringing uses. *Grokster*, 545 U.S. at 934. Moreover, this Court at the very least implied that "an actual purpose to cause infringing use [as] shown by evidence independent of design and distribution of the product" would suffice to impose liability for contributory infringement. *Id.*

Once this Court held that the Court of Appeals' knowledge requirement was too burdensome, it did not need to define the lower limits of intent required for contributory copyright infringement to decide the case. The record in *Grokster* was replete with evidence of active inducement — advertisements, instructions and press releases discussing how defendants' services can be used to copy proprietary music files. *See, e.g., id.* at 937-40. The defendants in *Grokster* could have been held liable on any of the myriad standards posited here by Petitioner and supporting *amici*, whether based on knowledge, recklessness, or a conscious disregard of rights.

It is critical to identify the particular contours and to note the limits of the *Grokster* decision because the Federal Circuit used *Grokster* to support its choice of the *Manville* approach over the *Hewlett Packard* approach. In *DSU*, the *en banc* court noted the conflict between the *Manville* and *Hewlett-Packard* lines of cases, and selected the *Manville* line, relying on *Grokster* as its primary support. The appellate court read into the *Grokster* decision implications for patent law that had not been suggested by this Court while ignoring the decision's actual holding. After noting the *Grokster* articulation of inducement with respect to "purposeful, culpable expression and conduct," the *DSU* court concluded that the decision "validate[d] this court's . . . state of mind requirement." *Id.* at 1306 (citing *Manville*, 917 F.2d at 544).

As shown above, however, *Grokster* should not have been applied in this manner.[6]

Ironically, in seeking to apply patent law principles to copyright law, the *Grokster* Court triggered a change in those very patent law principles.

III. IMPOSING A KNOWLEDGE-OF-PATENT-VIOLATION REQUIREMENT FOR § 271(b) WILL SEVERELY LIMIT THE SCOPE OF INDUCEMENT LAW.

Applying an intent standard along the lines of that expressed in *Hewlett Packard* would not only lead to a faithful application of the statute, but would also result in more certain jurisprudence. It will not lead to limitless consequences because typically liability will attach only where there is a supply of all or substantially all of the article, device, composition or combination used to infringe, and where there is purposeful encouragement to engage in acts of infringement. *See, e.g.*, *Grokster*, 545 U.S. at 921-26 (supply of file sharing software plus instructions and marketing); *DSU*, 471 F.3d at 1297-98 (needle guard that is assembled and combined with needle assembly, which combination infringes during use); *cf.* Rich, Infringement under Section 271 of the Patent Act of 1952, 21 Geo. Wash. L. Rev. at 538 ("The supplying of both the means and the *instructions* is

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[6] The cross application of patent and copyright principles only goes so far. *Sony*, 464 U.S. at 442 ("We recognize there are substantial differences between the patent and copyright laws.") This is particularly true on the issue of knowledge of infringement. In *Grokster*, there was evidence of widespread file sharing of current songs that enjoyed copyright protection from the moment of creation. The same cannot be said of patent protection, which does not attach to a new product as a matter of law in the way a copyright attaches to a new song.

an important aspect of these [induced infringement] cases.") (emphasis in original).

Conversely, applying a form of knowledge-of-patent-violation requirement will lead to uncertain jurisprudence and a law of very limited effect. Inducement must capture the blameworthy conduct of encouraging another to commit acts that infringe. Direct infringement is a strict liability offense with respect to awareness of the patent; knowledge only comes into play in willful infringement claims where the patent holder seeks extra-compensatory damages. *See, e.g., In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007). In this respect, knowledge is not a limitation on liability, but on the remedy for infringement. Consider the example of the product supplier who, without knowledge of the patent, instructs and markets to a user an infringing use, where part of the value to be derived from the product is its capability to perform the infringing use. The blameworthiness of the inducer — who profits from the sale of a product it intends to be used in a way that will infringe the patent of another — is at least as high as that of the user. With a knowledge-of-patent-violation requirement, it is only the end user that is liable. There is no principled reason to treat the product supplier's conduct differently than the conduct of the end user.

Also consider that the inducer likely first tested the device to determine if it could perform as advertised or instructed.[7] That conduct constitutes direct

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[7] Likewise, patent infringement cases often arise out of preliminary licensing negotiations. In these cases the defendant's knowledge of the patent is established prior to commencement of the litigation, thereby obscuring a clear view of whether knowledge of patent was ever required for liability. *See Henry*

infringement, and the supplier should be liable for that infringement; the only open question would be damages for that directly infringing conduct. Where the inducer profits from the sale of the product which it intends the consumer to use to directly infringe, it is clear that those profits are wrongfully gained by the inducing infringer and liability should extend to the inducing acts. There is no reason in the logic of the patent statute for the encouragement of others to use the supplied device to infringe (and thereby reap a monetary reward for selling the device having such capability) to be treated differently than the supplier's direct infringement.

An actual knowledge or conscious disregard standard would severely limit the ability of patent holders to succeed in prosecuting a claim for inducing infringement in the above circumstances. Rarely would one find direct evidence that an accused inducer had a specific intent to cause a customer to violate specific patents. Considering that intent is rarely provable by direct evidence, the effect of a high knowledge or intent standard would be to render the statute hopelessly inadequate.

Manufacturers would be encouraged in such a regime to ignore patents altogether to avoid exposure to inducement liability. Commentators have noted that some industries already engage in a form of willful blindness to patents in order to avoid enhanced damages for willful infringement; imposing a knowledge requirement for inducement liability

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v. A.B. Dick Co., 224 U.S. 1 (1912); *Rumford Chem. Works v. Hecker*, 20 F. Cas. 1342 (D.N.J. 1876); *Oak Indus. Inc. v. Zenith Elec. Corp.*, 697 F.Supp. 988 (N.D. Ill. 1988); *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660 (Fed. Cir. 1988); *Sims v. Mack Trucks, Inc.*, 459 F.Supp. 1198 (E.D. Pa. 1978).

would only exacerbate the practice. *See, e.g.*, Mark A. Lemley, Ignoring Patents, 2008 Mich. St. L. Rev. 19, 33 (2008) (reporting widespread intentional avoidance of patents, and advocating a regime that encourages reasonable searches for patents and good-faith license negotiations by assessing enhanced damages where such searches or negotiations are not conducted).

If actual knowledge of infringement of a valid patent were required, an inducer could defeat a claim for inducing infringement by proffering an opinion of counsel, even one that is erroneous. The accused inducer could defeat liability because he did not "know" that he was inducing patent infringement since he had an opinion that the acts did not infringe, or that the patent was invalid. This knowledge standard is too easy to manipulate to circumvent liability. The *SEB* court surely recognized this when it applied an approach that stretches *DSU*'s state-of-mind formulation.

The intermediate intent standard of "deliberate indifference," enunciated by the *SEB* court and advanced by some *amici,* will undoubtedly lead to uncertainty in application. The *SEB* panel blurred the intent standard, suggesting that constructive knowledge, such as that related to patent markings, may be sufficient in some circumstances: "For instance, a patentee may perhaps only need to show, as *Insituform* [*Technologies, Inc. v. Cat Contracting, Inc.*, 161 F.3d 688 (Fed. Cir. 1998)] suggests, constructive knowledge with persuasive evidence of disregard for clear patent markings, similar to the constructive notice requirement in § 287(a)." *SEB*, 594 F.3d at 1378.

Constructive knowledge is a legal fiction — knowledge is attributed where actual knowledge would have been obtained through the exercise of reasonable care and diligence. *See* Black's Law Dictionary 950 (9th ed. 2009). Marking is an example: knowledge of the patent is attributed to the infringer regardless of whether he actually saw the marking on the patented article. *See* 35 U.S.C. § 287 (2010). The panel's reference to "constructive knowledge" could be construed as endorsing a lower standard akin to recklessness or simple negligence. It could lead to litigation over the "standard of care" of those responsible for understanding the patent landscape in a given technical field. If that were to occur, the line between inducement and proper commercial conduct will be blurred even more than it is now.

A regime that imposes liability for inducing infringement on the same basis as it imposes liability for direct infringement would be consistent with the policies of the patent law and would be easier to apply in practice; it would certainly be easier than the standard espoused in *SEB*.

IV. THE REASONS EXPRESSED FOR A HIGH KNOWLEDGE STANDARD REFLECT DISSATISFACTION WITH OTHER ASPECTS OF PATENT LAW AND ARE INAPPLICABLE.

The *amici* argue on policy grounds that a high knowledge/intent standard is required for inducing infringement, citing 1) tort antecedents; 2) general dissatisfaction with other aspects of patent law; and 3) the commercial difficulties involved in clearing products for infringement exposure. None of their arguments is availing.

A. Tort Principles Support Inducement Liability Without a Knowledge Requirement.

Several *amici* refer to common law tort aiding and abetting liability as a reason to import a patent rights violation knowledge requirement into § 271. These analogies offer very weak support, and ignore areas of tort law where accessory liability may be imposed without fault or knowledge, as in product liability.

In the area of product liability, those in the stream of commerce are liable for the sale of a defective product even though they may have no control over the product or even an awareness of the defect. *See* 3 J.D. Lee & Barry A. Lindahl, Modern Tort Law: Liability and Litigation § 27:56 (2d ed. 2002) ("The general policy of strict liability is to bring within its scope all those who play any part in putting a defective product into the stream of commerce. In other words, liability extends from the manufacturer down the chain of distribution and includes any business entity in the chain of distribution."); Restatement (Third) of Torts: Products Liability § 1 (1998) ("The rule stated in this Section provides that all commercial sellers and distributors of products, including nonmanufacturing sellers and distributors such as wholesalers and retailers, are subject to liability for selling products that are defective. Liability attaches even when such nonmanufacturing sellers or distributors do not themselves render the products defective and regardless of whether they are in a position to prevent defects from occurring."); John S. Allee et al., Product Liability §2.02 (1984); 72A C.J.S. Products Liability § 71 (2004) ("A retailer engaged in the business of selling products to the public may be strictly

liable in tort for personal injuries caused by a defect in the product. The strict liability of a retailer arises from its integral role in the marketing enterprise, in that it has marketed or distributed a defective product, and put that product into circulation. In some cases, the retailer may be the only member of the marketing enterprise reasonably available to the injured plaintiff . . . ."). Describing the rationale for imposing liability to retailers who did not make the product, one court explained that retailers "are an integral part of the overall producing and marketing enterprise that should bear the cost of injuries resulting from defective products." *Vandermark v. Ford Motor Corp.*, 391 P.2d 168, 171 (Cal. 1964). In the case of inducing patent infringement, the inducing infringer is an integral part of the infringement chain and should not escape the strict liability afforded against direct infringers.

Another rationale for holding the retailer strictly liable for another's product is based on the implied warranty of merchantability. *See, e.g.*, W. Page Keeton, Prosser & Keeton on Torts § 100 (5th ed. 1984) ("[B]oth strict liability for breach of the implied warranty of merchantability and strict liability in tort have generally been applied against dealers and wholesalers" because, under certain circumstances, "the loss is one that can best be borne by the retailer as a cost of doing business."). Extended to the principles at issue here, a consumer should be able to rely on a purveyor's instructions on use that the consumer who follows those instructions will not infringe the patent rights of a third party. When following those instructions leads to no other result than infringement, the inducing instructor should be held strictly liable as though they were a direct infringer.

Where, as here, a manufacturer provides encouragement and instructions on infringing use, the manufacturer should bear responsibility for the ultimate infringement, along with the directly infringing user. In ascribing similar liability for defective products, the New York Court of Appeals in *Codling v. Paglia*, espoused the policy basis for liability along the stream of commerce that also resonates for induced patent infringement:

> The policy of protecting the public from injury, physical or pecuniary, resulting from misrepresentations outweighs allegiance to old and outmoded technical rules of law which, if observed, might be productive of great injustice. The manufacturer unquestionably intends and expects that the product will be purchased and used in reliance upon his express assurance of its quality and, in fact, it is so purchased and used. Having invited and solicited the use, the manufacturer should not be permitted to avoid responsibility, when the expected use leads to injury and loss, by claiming that he made no contract directly with the user.

32 N.Y.2d 330, 339 (1973) (citing *Randy Knitwear v. American Cyanamid Co.*, 11 N.Y.2d 5 (1962)). In such strict liability cases, there is no requirement that the manufacturer know of any specific defect.[8]

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[8] "Dram Shop" laws also impose strict liability without negligence on providers of alcoholic beverages. *See* Keeton, Prosser & Keeton, *supra*, § 81. The damages recoverable to third parties may be available even when the intoxicated actor causes another to injure him. *See, e.g., Kiriluk v. Cohen*, 148 N.E.2d 607, 610-611 (Ill. App. Ct. 1958) (finding that widow who killed her drunk husband in self defense could recover damages against the liquor provider for providing the alcohol that contri-

To the extent that the Court looks to tort antecedents to determine the knowledge requirement of § 271(b), those antecedents giving rise to product liability law support the view that AIPLA expresses here.

B. The Dissatisfaction with Other Aspects of Patent Law Should Not Serve as a Basis for Limiting Inducement Liability.

Several *amici* have raised dissatisfaction with other aspects of the law as justification for limiting the scope of inducement liability, such as: the prevalence of patent infringement suits brought by non-producing entities; the potential for "submarine" patents arising after a product is on the market; the increasing costs of patent litigation; and the issuance of "questionable" patents.

Without addressing the substance of these complaints, the obvious retort is to address the issues head-on rather than seek a way to limit liability in a widespread way so as to mitigate the overall effects of these perceived shortcomings in patent law. Nothing that this Court does to address inducement liability will have an effect on these complaints.

C. The Commercial Difficulties of Operating in a Patent Environment is not a Basis to Limit Inducement Liability.

Several *amici* have complained that it is difficult, if not impossible, to review the multitude of patents that are issued each year for product clearance

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buted to the deceased husband's attack on his wife and that the proper question for the jury was whether the widow acted in self-defense.)

purposes. Their complaint prompts at least two responses.

First, as there is no knowledge requirement for direct infringement, limiting inducement liability will do nothing to alleviate the need to clear products. If these corporations are ignoring patents, they are doing so at their peril with respect to direct infringement.

Second, and this also responds to a countervailing theme running throughout the *amicus* briefing, we must respect patent rights. The right to secure patents is an express power delegated to Congress through the Constitution, and respect for patent rights was a policy basis for enacting the 1952 Act and a primary reason for the establishment of the Federal Circuit. The subtext of these briefs is that the accused infringers are the *innovators* and the patent holders are something else — a nuisance, a hindrance to commerce, or an obstacle to "real" innovation.

That premise is faulty. Patent holders are innovators in the truest sense — they bring new inventions to the public consciousness. Patents are also an important class of assets in the economy. Obtaining patents is often critical for start-up companies to attract risk capital to help grow their businesses. Industry relies heavily on patent pipelines to protect products, such as new forms of pharmaceuticals and medical devices, that are offered to the consumer. By disclosing their inventions, inventors perform a valuable service in advancing the state of the art. It is unassailable that this intellectual property is worthy of protection. The patent laws should not be distorted in a way that diminishes these contributions.

V. THE JUDGMENT SHOULD BE AFFIRMED BASED ON THE PROPOSED APPROACH.

Applying the inducement standard proposed herein, the underlying decision should be affirmed. Defendants supplied products that inevitably infringe when sold at retail by its customers. Their sales of devices that could only be used to infringe was an active inducement of infringement by its customers. On this basis, the judgment of the Court of Appeals should be affirmed.

CONCLUSION

For the foregoing reasons and applying the standard articulated herein, the judgment of the Court of Appeals should be affirmed.

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GLOBAL-TECH APPLIANCES, INC., *ET AL.*,

Petitioners,

v.

SEB S.A.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF BUSINESS SOFTWARE ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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BRIEF OF BUSINESS SOFTWARE ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

INTEREST OF THE *AMICUS CURIAE*

The Business Software Alliance (BSA) is an association of the world's leading software and hardware technology companies. On behalf of its members, BSA promotes policies that foster innovation, growth, and a competitive marketplace for commercial software and related technologies. BSA members develop hundreds of new products every year, contributing to a significant sector of the U.S. economy. And by virtue of their inventions, BSA members hold tens of thousands of patents. Because they are both innovators as well as substantial patent holders, BSA members have a particularly acute interest in properly calibrated liability for claims of patent infringement.

BSA members include Adobe, Altium, Apple, Autodesk, AVEVA, AVG, Bentley Systems, CA Technologies, Cadence, Cisco Systems, CNC/Mastercam, Corel, Dassault Systèmes SolidWorks Corporation, Dell, HP, IBM, Intel, Intuit, Kaspersky Lab, McAfee, Microsoft, Minitab, Progress Software, PTC, Quark, Quest Software, Rosetta Stone, Siemens, Sybase, Symantec, Synopsys, and The MathWorks.[1]

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[1] Pursuant to Rule 37.6, *amicus* affirms that no counsel for a party authored this brief in whole or in part and that no person other than *amicus* and its counsel made a monetary contribution to its preparation or submission. The parties' letters consenting to the filing of this brief have been filed with the Clerk's office.

SUMMARY OF ARGUMENT

Since the end of the nineteenth century, the federal courts have agreed that individuals may be held liable for indirect patent infringement. This secondary liability "exists to protect patent rights from subversion by those who, without directly infringing the patent themselves, engage in acts *designed* to facilitate infringement by others." *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 188 (1980) (emphasis added). "This protection is of particular importance in situations * * * where enforcement against direct infringers would be difficult, and where the technicalities of patent law make it relatively easy to profit from another's invention without risking a charge of direct infringement." *Ibid.*

Secondary liability is thus designed to prevent individuals who have engaged in intentional wrongdoing from escaping through some technical loophole in the patent laws. Because it is meant to sanction *purposeful* actions, secondary liability for patent infringement has always required proof of specific intent and actual knowledge. When it adopted the Patent Act of 1952, Congress codified these common law principles.

That approach reflects the proper balance between the rights of patent holders and innovators whose creativity benefits the public at large. Patent holders enjoy substantial protection for their property rights: *direct* infringement is a strict liability offense. But because indirect infringement claims can be presented through an enormous assortment of varying theories—many of which are simply unpredictable to inventors and competitors—overly broad secondary liability "would block the wheels of commerce." *Henry* v. *A.B. Dick Co.*, 224 U.S. 1, 48 (1912),

superseded on other grounds by 38 Stat. 731, *as recognized by Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 517-518 (1917).

This is increasingly true in the modern patent landscape where enormously complex products may potentially implicate many thousands of patents representing the inventive effort of as many different entities. Pegging secondary liability to proof of specific intent and knowledge of the underlying infringement ensures that patent holders have appropriate remedies against those who seek to profit by inducing others to infringe, but does not hold innovators liable for unintentional conduct.

This Court has already endorsed these principles. In *Metro-Goldwyn-Mayer Studios Inc.* v. *Grokster, Ltd.*, 545 U.S. 913 (2005), the Court applied in the copyright context the standards governing liability for inducing patent infringement. In so doing, it affirmed the actual knowledge and specific intent requirements of inducement liability. These elements, the Court explained, properly "limit[] liability to instances of more acute fault" and thus "leave[] breathing room for innovation and a vigorous commerce." *Id.* at 932-933. Precisely that same balance controls the construction of Section 271(b) here.

ARGUMENT

PATENT INDUCEMENT CLAIMS REQUIRE PROOF OF PURPOSEFUL MISCONDUCT.

Section 271(b) of the Patent Act creates liability for "[w]hoever actively induces infringement of a patent." 35 U.S.C. § 271(b).

There is no dispute regarding the conduct elements of a Section 271(b) claim. There must be an

underlying patent infringement: "the inducement theory of course requires evidence of actual infringement." *Grokster*, 545 U.S. at 940. See also *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 526 (1972) ("[I]t is established that there can be no contributory infringement without the fact or intention of a direct infringement."); *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 341 (1961) (same); *Met-Coil Sys. Corp.* v. *Korners Unlimited, Inc.*, 803 F.2d 684, 687 (Fed. Cir. 1986) ("Absent direct infringement of the patent claims, there can be neither contributory infringement nor inducement of infringement." (citations omitted)).

And the defendant's acts must constitute "affirmative steps taken to foster infringement." *Grokster*, 545 U.S. at 936-937); see also *Tegal Corp.* v. *Tokyo Electron Co.*, 248 F.3d 1376, 1378 (Fed. Cir. 2001) ("'Actively inducing,' like 'facilitating,' requires an affirmative act of some kind."); *Individual Drinking Cup Co.* v. *Errett*, 297 F. 733, 739-740 (2d Cir. 1924) (to be held liable for contributory infringement a defendant must have "done some act without which the infringement would not have occurred").

The question in this case involves the mental state element of an inducement claim. It is clear from the Court's recent decision in *Grokster*—as well as from this Court's earlier patent jurisprudence—that specific intent to induce infringement is a necessary prerequisite to inducement liability. It is equally clear that the specific intent requirement can be satisfied only when the defendant has actual knowledge of the underlying infringement.

Notwithstanding this Court's decisions, the Federal Circuit has been unable to settle on a clear formulation of the mental element for this statute.[2] Recently, that court approved a particularly lax knowledge requirement, suggesting that a party's recklessness—and even potentially its negligence—could trigger inducement liability. This approach represents an extraordinarily dangerous expansion of liability for inventors of new products and servic-

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[2] In *Hewlett-Packard Co.* v. *Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990), the court applied a broad intent requirement, requiring only "proof of actual intent to cause the acts which constitute the infringement." But the court did not expressly require a plaintiff to prove that the defendant actually knew of the underlying infringement. *Ibid.* Less than three months later, in *Manville Sales Corp.* v. *Paramount Systems Inc.*, 917 F 2d 544, 553 (Fed. Cir. 1990), the court concluded that a plaintiff must prove "that the defendant possessed specific intent to encourage another's infringement" and "he knew or should have known his actions would induce actual infringements."

In the years that followed, the court frequently recognized its own "lack of clarity" on this point (see, *e.g.*, *MEMC Elec. Materials, Inc.* v. *Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1378 n.4 (Fed. Cir. 2005) (citation omitted)), and in *DSU Medical Corp.* v. *JMS Co.*, 471 F.3d 1293, 1304-1306 (Fed. Cir. 2006), the court revisited this issue en banc. Viewing *Grokster* as dispositive, the court concluded that "the intent requirement for inducement requires more than just intent to cause the acts that produce direct infringement," thus "the inducer must have an affirmative intent to cause direct infringement." *Id.* at 1306.

Notwithstanding the en banc court's determination that "inducement requires evidence of culpable conduct, directed to encouraging another's infringement" (*DSU Med. Corp.*, 471 F.3d at 1306), the court below viewed the "the scope of the knowledge requirement for intent" as an open question, and proceeded to craft its minimal standard. *SEB S.A.* v *Montgomery Ward & Co.*, 594 F.3d 1360, 1376 (Fed. Cir. 2010)

es. The actual knowledge and specific intent requirements are essential to properly balance the rights of patent holders with those of innovators and, in turn, the public.

A. A Recklessness Standard Would Threaten Technology Companies With Unjustified And Extraordinarily Broad Inducement Liability.

Left uncorrected, the recklessness standard adopted by the Federal Circuit will have dramatic negative implications for technology businesses, significantly increasing the cost of developing new products and services—costs that will be passed to consumers.

First, inducement liability based on a recklessness standard would, in the modern patent landscape, result in nearly limitless liability, especially for companies in technology industries.

A new technology product or service may incorporate hundreds if not thousands of separate patents. Fed. Trade Comm'n, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, *Executive Summary*, at 6 (Oct. 2003) ("FTC REPORT") ("In some industries, such as computer hardware and software, firms can require access to dozens, hundreds, or even thousands of patents to produce just one commercial product."). This is because "computer hardware and software contain an incredibly large number of incremental innovations." *Ibid.*[3]

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[3] In 2003, for example, it was estimated that more than 10,000 parties held more than 90,000 patents related to microprocessors and 40,000 parties held more than 420,000 patents related

Given that a single device may implicate thousands of patents, an inventor that exercises the utmost good faith will sometimes fail to uncover a relevant patent. See FTC REPORT, CH. 2, *The Role of Competition & the Patent System in Spurring Innovation*, at 26 ("One panelist from the software industry noted that programs can contain millions of lines of code and include 'potentially hundreds of thousands' of patentable inventions."). The general counsel of one large technology company explained that "'the large number of issued patents in [the computer hardware industry] makes it virtually impossible to search all potentially relevant patents, review the claims, and evaluate the possibility of an infringement claim or the need for a license.'" *Id.* at 28.

A company that directly infringes a patent is strictly liable. See *In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007) ("patent infringement is a strict liability offense"). The unlawful conduct is sufficient to establish liability, even if it is unintentional, unknowing, or otherwise innocent. See *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388 (2006).

Inducement liability, however, by its very nature involves conduct that is entirely lawful; it is the defendant's mental state that defines the scope of liability. A mental state element as boundless as recklessness will create a significant chilling effect, causing companies to avoid a wide variety of perfectly lawful (and economically productive) activity out of

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to semiconductors. FTC REPORT, CH. 3, *Business Testimony: Current Innovation Landscape in Selected Industries*, at 34. See also Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979-1995*, 32 RAND J. ECON., No. 1, 101, 110 (2001).

fear that innocent actions may nonetheless pave the road for inducement claims. Moreover, because of the practical realities of litigation and the discretion courts accord jury verdicts, a recklessness standard is hardly distinguishable from mere negligence.

A few examples illustrate this danger:

- **Supplier liability.** In today's economy, one company often sells a device or licenses a technology to a third party, who then integrates that device or technology into its own product. The company that supplies the device or technology may have no control over the final product nor any knowledge as to whether that product somehow infringes a patent. But a plaintiff could nonetheless contend that the supplier facilitated and thus induced the final product. Under a recklessness standard, the supplier's lack of knowledge would not suffice as a defense. Instead, a supplier would have to investigate how downstream producers will use its devices and technology—an utterly cost prohibitive and practically impossible burden. Cf. *nCube Corp.* v. *Seachange Int'l, Inc.*, 436 F.3d 1317 (Fed. Cir. 2006).

- **Alternative uses.** A product's primary and intended usage may not infringe a patent, but a product may be susceptible to be used in an infringing manner. Under a recklessness standard, a company could be sued for inducement even if it had no actual knowledge that its product could be used to infringe nor any intent to cause infringing activities—a result squarely at odds with *Grokster*.

- **Financing agreements.** Companies routinely obtain outside financing to bring a product to market, to construct a facility to manufacture a new device, or to otherwise facilitate their activities. That financier may be claimed to have induced the production of the device. A recklessness rule could impose a duty on the financier to investigate independently whether the product infringes any patent.

- **Extraterritorial liability.** If a company lawfully manufactures a product abroad (indeed, U.S. patent law generally does not extend overseas), but a third party imports it to the United States, the foreign party may be sued for inducing the third party to infringe. Thus inducement liability may serve as an end-run around territorial limitations on patent law. Cf. *MEMC Elec. Materials, Inc.* v. *Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369 (Fed. Cir. 2005).

And this is just the tip of the inducement iceberg; numerous other parties, from advertising agencies to online marketplaces may be characterized as entities that unwittingly provide substantial assistance to infringement of a patent. But "[t]hird-party liability should be the exception and not the rule. While designed to allow patentees to seek recovery in circumstances where it may be impractical to do so, the doctrine should not create a windfall for patentees against innocent parties." Timothy R. Holbrook, *The Intent Element of Induced Infringement*, 22 SANTA CLARA COMP. & HIGH TECH. L.J. 399, 408 (2006).

Second, the unpredictability of a recklessness standard will be magnified greatly by "non-practicing

entities" (or NPEs), the "industry [that] has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." *eBay Inc.*, 547 U.S. at 396 (Kennedy, J., concurring). The number of suits brought by NPEs has exploded in recent years, currently accounting for over ten percent of the total intellectual property litigation in the United States, a *four-fold* increase from the period between 1994 and 2002. Daniel P. McCurdy, *Patent Trolls Erode the Foundation of the U.S. Patent System*, SCIENCE PROGRESS (Jan. 12, 2009), available at http://tinyurl.com/2cayudf.

Because NPEs are often investment-backed vehicles that acquire patent portfolios for the purpose of litigating against innovators to turn a profit (McCurdy, *supra*), they have a strong incentive to seize on this substantially broadened liability to bring actions against ever-widening pools of defendants. See James Bessen & Michael J. Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1, 16 (2005). This is not speculative—NPEs have levied numerous inducement claims in recent years. See, *e.g.*, *Tech. Patents LLC* v. *Deutsche Telekom AG*, No. AW-07-3012, 2010 WL 3895338 (D. Md. Sept. 29, 2010); *epicRealm, Licensing, LLC* v. *Autoflex Leasing, Inc.*, 492 F. Supp. 2d 608 (E.D. Tex. 2007); *Ronald A. Katz Tech. Licensing, L.P.* v. *Verizon Commc'ns, Inc.*, No. 01-5627, 2002 WL 31834833 (E.D. Pa. Dec. 18, 2002). The Federal Circuit's rule will compound this cost on innovators, with no benefit to the public.

Third, the costs of such expanded liability would be enormous. This is especially true in the technology context, where the interactive nature of products

and services combined with broad inducement liability could result in the assertion of truly gigantic damages claims.

These costs, and the potential of fundamentally undermining a company's business, create substantial incentives for a company to settle a claim rather than litigate, regardless of the actual merits of the suit. See Wesley M. Cohen et al., *Protecting Their Intellectual Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not)*, Nat'l Bur. Econ. Research Working Paper No. 7552, at 27 (Feb. 2000) (patents can be used effectively to threaten litigation "even if they are weak or untested" because "[t]hey need only confer the right to sue and thus impose the costs of litigation and possible injunctive relief"). Inducement liability premised on recklessness or negligence will serve primarily as additional hooks for extracting larger settlements from innovators. Cf. *eBay Inc.*, 547 U.S. at 396 (Kennedy, J., concurring) (threat of injunction used as "bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent"); *Blue Chip Stamps* v. *Manor Drug Stores*, 421 U.S. 723, 740-743 (1975) (recognizing the risk of unjustified settlements).

The substantial costs of the recklessness approach to inducement liability are particularly distressing insofar as they provide no ascertainable benefits for patent compliance. Inducement liability can have no prophylactic effect where a party is unaware of the underlying infringement.

The Federal Circuit's rule will thus have two principal effects: it will erect a significant deterrent for would-be inventors of new products and, for those producers that nonetheless do continue to innovate, it will increase costs to consumers because of un-

known and unknowable risks of infringement leading to increased costs of legal compliance and increased costs born through litigation or settlements.

But the Patent Act should not favor the rights of patent holders to the exclusion of innovators and, in turn, the public. "From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989). And these interests necessarily inform interpretation of the statute, because Congress does not "enlarge the patent monopoly without regard to the innovation, advancement or social benefit gained thereby." *Graham* v. *John Deere Co.*, 383 U.S. 1, 6 (1966).

B. An Inducement Claim Requires Proof Of Both Specific Intent To Induce Infringement And Actual Knowledge Of The Infringement.

A claim of induced patent infringement requires proof that a defendant specifically intended to induce a third party to commit acts that constitute patent infringement and that the defendant actually knew of the underlying infringement.

These twin elements were well-recognized as essential features of pre-1952, common-law patent inducement claims. In the Patent Act of 1952, Congress "designed" Sections 271(b) and (c) "to 'codify in statutory form principles of contributory infringement' which had been 'part of our law for about 80 years.'" *Aro Mfg. Co.* v. *Convertible Top Replacement*

Co., 377 U.S. 476, 485 n.6 (1964) ("*Aro II*") (quoting H.R. Rep. No. 1923); see also S. Rep. No. 1979, at 8 (1952), reprinted in 1952 U.S.C.C.A.N. 2394, 2402 (same)); 5 Donald S. Chisum, *Patents* § 17.04 (2005).[4] Accordingly, a statutory claim for induced patent infringement requires proof of specific intent and actual knowledge.[5]

1. Specific intent.

In the course of applying the patent law's inducement standard in the copyright context, this Court in *Grokster* expressly recognized that a patent inducement claim requires evidence of "intent to bring about infringement." *Grokster*, 545 U.S. at 940. An inducement claim "premises liability on *purposeful, culpable expression and conduct*." *Id.* at 937 (emphasis added). It requires proof of "words and deeds * * * show[ing] a purpose to cause and profit from third-party acts of * * * infringement." *Id.* at 941.

This stringent standard stems from "the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential." *Grokster*, 545 U.S. at 937. By requiring clear evidence of purposeful conduct, the inducement standard "does nothing to compro-

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[4] The Act divided the then-existing common law secondary liability into two parts: the sale of a component especially adapted for infringing use (35 U.S.C. § 271(c)) and all other forms of secondary infringement—labeled inducement liability (35 U.S.C. § 271(b)).

[5] Because the mental element of a Section 271(b) claim turns upon the standards applied by courts in patent infringement claims at the time the statute was enacted, the Court's decision in this case will not affect the standards for establishing secondary liability in other statutory contexts.

mise legitimate commerce or discourage innovation having a lawful promise." *Ibid.*

Grokster's holding is fully consistent with the statutory text of Section 271(b), which—by imposing liability only on a person who "*actively* induces infringement" (emphasis added)—makes clear that the defendant must affirmatively intend to promote that result.

And the specific intent requirement is consistent with Congress's goal—specifically recognized by this Court (see pages 12-13, *supra*)—of codifying the pre-1952 case law, which required a plaintiff to prove a defendant acted with the specific intent to aid the underlying infringement. See Giles S. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 21 GEO. WASH. L. REV. 521, 537 (1953) ("[T]he evidence must establish active inducement and that involves intent.").

In *A.B. Dick*, which involved a claim to "aid[] and abet[]" patent infringement (224 U.S. at 14), the Court explained that merely selling an article that promotes infringement "is not enough to make the seller a contributory infringer. * * * There must be an intent and purpose that the article sold will be so used" (*id.* at 48). A rule to the contrary, the Court noted, "would block the wheels of commerce." *Ibid.*[6]

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[6] Numerous other pre-1952 staple-article of commerce contributory infringement decisions reached precisely the same result. See, *e.g.*, *Morgan Envelope Co.* v. *Albany Perforated Wrapping Paper Co.*, 152 U.S. 425, 432-433 (1894) (contributory infringement claim requires selling device "with intent that it shall be united to the other elements"); *Bassick Mfg. Co.* v. *Adams Grease Gun Corp.*, 52 F.2d 36, 40 (2d Cir. 1931) (goods must be "sold with knowledge and intent that they were to be

To be sure, *A.B. Dick* involved a specially-adapted article of commerce claim, a claim that is presently cognizable under Section 271(c). But prior to 1952, "contributory infringement" included the present-day Section 271(b) inducement claim as well as the Section 271(c) staple-article claim. See *Hewlett-Packard Co.*, 909 F.2d at 1469 (In the Patent Act of 1952, "the single concept of 'contributory infringement' was divided between §§ 271(b) and 271(c) into 'active inducement' (a type of direct infringement) and 'contributory infringement,' respectively."). Thus, the *A.B. Dick* rule necessarily applies with full force here.

Indeed, the specific intent requirement was applied routinely in pre-1952 inducement claims. For example, in *Rumford Chemical Works* v. *Hecker*, 20 F. Cas. 1342, 1346 (C.C.D. N.J. 1876) (a case that this Court cited approvingly in *Grokster*, 545 U.S. at 935), the patent holder claimed that a manufacturer induced the users of its products to infringe—a claim with substantial similarity to the inducement claim at issue in this case. The court found that such a claim requires proof that the defendant "use[d] the constituents of the complainant's patent with the intent and further purpose of enabling the buyer" to infringe the patent. 20 F. Cas. at 1346.

Similar cases abound. See, *e.g.*, *Chas. H. Lilly Co.* v. *I.F. Laucks, Inc.*, 68 F.2d 175, 185 (9th Cir. 1933) ("the intent that it should be used in an infringing way must be affirmatively shown" (quota-

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used" to infringe); *Rupp & Wittgenfeld Co.* v. *Elliott*, 131 F. 730, 733 (6th Cir. 1904) ("The intent that the article sold shall be used in an infringing way must be made out."); *Edison Elec. Light Co.* v. *Peninsular Light, Power & Heat Co.*, 101 F. 831 (6th Cir. 1900).

tion omitted)); *Westinghouse Elec. & Mfg. Co.* v. *Precise Mfg. Corp.*, 11 F.2d 209, 212 (2d Cir. 1926) (plaintiff must prove seller of device capable of infringing "sold with the intent that it shall be so used"); *Sandusky Foundry & Mach. Co.* v. *De Lavaud*, 274 F. 607, 610-611 (6th Cir. 1921); *Elevator Appliance Co.* v. *Atlantic Metal Prods., Inc.*, 19 F. Supp. 343, 344 (E.D.N.Y. 1937) ("[T]here must be present in the record evidence of conduct which consists in intentionally giving aid to, or intentionally co-operating in, an infringement." (citation omitted)); *Activated Sludge, Inc.* v. *Filtros, Inc.*, 10 F. Supp. 241, 243 (W.D.N.Y. 1935); *Emery* v. *G.C. Murphy Co.*, 4 F. Supp. 575, 580 (D. Conn. 1933) ("One must in some manner participate intentionally in some subsequent infringement of a patent * * * to be classified and held as a contributory infringer thereof.").

2. Actual knowledge.

Not only must a plaintiff prove that a defendant specifically intended to cause a third party to commit acts that constitute infringement, but the plaintiff must also prove that the defendant had actual knowledge that the primary violator engaged in patent infringement.

a. Proof of actual knowledge of the underlying patent infringement is not by itself sufficient to satisfy the specific intent requirement, but such proof is a necessary to demonstrate specific intent. Because a plaintiff must prove that the defendant knew its acts would cause a third party to infringe a patent, the plaintiff necessarily must prove that the defendant had actual knowledge—a defendant could not have specific intent to induce patent infringement if it did not know that the unlawful conduct was taking place.

Not surprisingly, therefore, this Court has squarely held in the context of Section 271(c) that a plaintiff must "show[] that the alleged contributory infringer knew that the combination for which his component was especially designed was both patented and infringing." *Aro II*, 377 U.S. at 488. See also *Dawson Chem.*, 448 U.S. at 219 (*Aro II* held that "[Section] 271(c) requires a showing that an alleged contributory infringer knew that the combination for which his component was especially designed was both patented and infringing").

Because Sections 271(b) and 271(c) are codifications of the same pre-1952 common law (see pages 12-13, 15, *supra*), *Aro II's* analysis of the historical knowledge requirement applies with full force to an active inducement claim. As a leading treatise has noted, "[t]he *Aro II* requirement that the defendant have some knowledge of the patent as well as the nature of his acts and their consequences would * * * seem to apply equally to Section 271(b) and 271(c)." 5 Chisum, *Patents* § 17.04[2].[7]

Moreover, prior to the 1952 Act, a claim of induced patent infringement plainly required knowledge of the underlying infringement. For example, in *Activated Sludge*, 10 F. Supp. at 243, the plaintiff sued a defendant for inducing patent infringement

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[7] If anything, the scienter requirement for Section 271(b) inducement claims should be *greater* than for a Section 271(c) claim. Contributory infringement under Section 271(c) requires a clearly-defined concrete act— "sell[ing]," "offer[ing] to sell," or "import[ing] into the United States" an item "especially made or especially adapted for use" to infringe. 35 U.S.C. § 271(c). Inducement on the other hand may turn on a much wider variety of affirmative acts involving conduct that in no way provides notice that it could lead to potential liability.

by selling a product capable of infringing use. The court found that such a claim is permissible only where the product "made with knowledge" of the infringement and "sold with the intent that it shall be so used." *Ibid.* And in *Tubular Rivet & Stud Co.* v. *O'Brien*, 93 F. 200, 202-205 (C.C.D. Mass. 1898), the court explained that there must be proof that the defendant "actually knew [of] the existence of the complainant's patent."

Numerous other cases apply this same principle. See, *e.g.*, *Westinghouse Elec.*, 11 F.2d at 212 (requiring "knowledge of the contemplated infringement"); *Individual Drinking Cup*, 297 F. at 737 (same); *Cortelyou* v. *Charles E. Johnson & Co.*, 145 F. 933, 936 (2d Cir. 1906) (holding that "defendant's knowledge" of the infringement "must be proved"), *aff'd*, 207 U.S. 196 (1907); *Rupp & Wittgenfeld Co.* v. *Elliott*, 131 F. 730, 733 (6th Cir. 1904); *Perfect Tailboards* v. *Nat'l Bent Steel Corp.*, 27 F. Supp. 550, 551-552 (E.D.N.Y. 1939); *Beidler* v. *Photostat Corp.*, 10 F. Supp. 628, 631 (W.D.N.Y. 1935) (plaintiff must prove that a product is "is manufactured and/or sold to infringers with knowledge and intent and with the purpose that it will be so used"), *aff'd per curiam*, 81 F.2d 1015 (2d Cir. 1936); *Edison Phonograph Co.* v. *Pike*, 116 F. 863, 867 (C.C.D. Mass. 1902); *Emery*, 4 F. Supp. at 580 (contributory infringement only lies where one "knowingly aid[s] and abet[s] infringement").

This Court in *Grokster* strongly suggested that actual knowledge is a necessary (though not sufficient) condition for inducement liability; "mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability." 545 U.S. at 937. And the Court

quoted approvingly the Federal Circuit's holding that there may be "liability for inducement where one 'actively and knowingly aid[s] and abet[s] another's direct infringement.'" *Id.* at 936 (quoting *Water Tech. Corp.* v. *Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988)).

b. The Federal Circuit held that the mental element of a patent infringement inducement claim is satisfied wherever "the alleged infringer knew *or should have known* that his actions would induce actual infringements." *SEB*, 594 F.3d at 1376. "Should have known," of course, is a negligence standard. Apparently recognizing that negligence is incompatible with the history and purpose of the Patent Act, the court then appeared to retreat, adopting the "deliberate indifference" doctrine of *Farmer* v. *Brennan*, 511 U.S. 825 (1994). See *SEB*, 594 F.3d at 1376-1377.

But deliberate indifference is not a means of proving actual knowledge; rather, it is as a practical matter a synonym for recklessness. Thus, *Farmer* acknowledged that "[t]he civil law generally calls a person reckless who acts or (if the person has a duty to act) fails to act in the face of an unjustifiably high risk of harm that is either known or so obvious that it should be known." 511 U.S. at 836.

Other courts have likewise found that deliberate indifference extends far beyond the bounds of actual knowledge. See *Jones* v. *Muskegon County*, No. 09-2125, 2010 WL 4352392, at *4 (6th Cir. July 28, 2010) ("The Supreme Court has defined 'deliberate indifference' as being more than mere negligence but less than acting with purpose or knowledge. Instead, the prison official must have acted with a state of mind similar to recklessness." (citation omitted));

Hernandez ex rel. Hernandez v. *Texas Dep't of Protective & Reg. Servs.*, 380 F.3d 872, 881 (5th Cir. 2004) (in rejecting argument that "that deliberate indifference requires actual knowledge," the court explained that "[a]lthough deliberate indifference is determined by a subjective standard of recklessness, * * * this court has never required state officials to be warned of a specific danger"); *Hathaway* v. *Coughlin*, 99 F.3d 550, 554 (2d Cir. 1996) (holding that "culpable recklessness underl[ies] liability for deliberate indifference"); *Miltier* v. *Beorn*, 896 F.2d 848, 851 (4th Cir. 1990) ("Deliberate indifference may be demonstrated by either actual intent or reckless disregard.").[8]

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[8] The flaw in the Federal Circuit's "deliberate indifference" approach is further demonstrated by its willingness to allow juries to find that an alleged inducer acted with the requisite mental state based on the defendant's failure to produce an opinion of counsel stating that its conduct did not induce infringement. In *Broadcom Corp.* v. *Qualcomm Inc.*, 543 F.3d 683 (Fed. Cir. 2008)—which the court below cited approvingly—the Federal Circuit affirmed a jury instruction stating that "[w]hen considering whether [the alleged inducer] knew or should have known that the induced actions would constitute infringement, in the totality of the circumstances, *you may consider all of the circumstances, including whether or not [the alleged infringer] obtained the advice of a competent lawyer*." *Id.* at 698 (emphasis added). The court found that "[b]ecause opinion-of-counsel evidence, along with other factors, may reflect whether the accused infringer 'knew or should have known' that its actions would cause another to directly infringe, we hold such evidence remains relevant to the second prong of the intent analysis." *Id.* at 699.

This approach contrasts sharply with the Federal Circuit's holding in the context of willful infringement that failure to obtain advice of counsel will not "provide an inference or evidentiary presumption that such opinion would have been negative,"

The lower court's dramatically overbroad liability standard will "block the wheels of commerce" (*A.B. Dick*, 224 U.S. at 48) by unduly burdening innocent parties whose acts unintentionally and unknowingly cause another to infringe. Expansive liability standards "inadvertently may have anticompetitive effects [that] can cause unwarranted market power and can unjustifiably increase costs. Such effects can hamper competition that otherwise would stimulate innovation." FTC REPORT, *Executive Summary*, at 5; see also Holbrook, *supra*, at 408 ("Truly culpable parties are those that intend to induce infringement and not those who simply intend to induce the acts that constitute infringement. To hold otherwise would penalize a 'good' actor who holds a belief that the others are not directly infringing."); pages 10-12, *supra*.

The Federal Circuit's approach is in addition starkly inconsistent with this Court's precedents and with the pre-1952 case law codified by Section 271(b). Actual knowledge of the underlying infringement is an essential element of an inducement claim.[9]

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because of "the burdens and costs of the requirement, as pressed in litigation, for early and full study by counsel of every potentially adverse patent." *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH* v. *Dana Corp.*, 383 F.3d 1337, 1345 (Fed. Cir. 2004) (en banc). It therefore confirms the minimalist nature of the "knowledge" standard applied by the court below.

[9] This case provides no occasion for the Court to address whether the actual knowledge standard may be satisfied by proof of willful blindness. Cf. *United States* v. *Santos*, 553 U.S. 507, 521 (2008); *Holder* v. *Humanitarian Law Project*, 130 S. Ct. 2705, 2740 (2010) (Breyer, J., dissenting) (willful blindness is equivalent to actual knowledge). Willful blindness, of course, is a means of proving actual knowledge, not a lesser intent standard. *United States* v. *One 1973 Rolls Royce*, 43 F.3d 794,

C. The Court Should Remand For Application Of The Proper Standard To This Case.

The trial court instructed the jury that petitioner could be held liable for inducement if it "knew or should have known" of the underlying infringement. Pet. 10. That application of a negligence standard is directly contrary to the requirements of the Patent Act. Because the trial court improperly instructed the jury and the Federal Circuit applied the incorrect knowledge requirement, remand is necessary for consideration under the appropriate legal standard.

CONCLUSION

The judgment of the Federal Circuit should be reversed.

Respectfully submitted.

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808 (3d Cir. 1994) ("the mainstream conception of willful blindness" is "a state of mind of much greater culpability than simple negligence or recklessness").

AMICUS CURIAE BRIEF

Supreme Court, U.S.
FILED
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No. 10-6

IN THE

Supreme Court of the United States

GLOBAL-TECH APPLIANCES, INC. and
PENTALPHA ENTERPRISES, LTD.,
Petitioners,

v.

SEB S.A.,
Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR CISCO SYSTEMS, INC., DELL INC., AND INTEL CORPORATION AS *AMICI CURIAE* IN SUPPORT OF REVERSAL

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QUESTION PRESENTED

Whether the legal standard for the state of mind element of a claim for actively inducing infringement under 35 U.S.C. § 271(b) is "deliberate indifference of a known risk" that an infringement may occur, as the Court of Appeals for the Federal Circuit held, or "purposeful, culpable expression and conduct" to encourage an infringement, as this Court taught in *MGM Studios, Inc.* v. *Grokster, Ltd.*, 545 U.S. 913, 937 (2005)?

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IN THE

Supreme Court of the United States

No. 10-6

GLOBAL-TECH APPLIANCES, INC. and
PENTALPHA ENTERPRISES, LTD.,
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v.

SEB S.A.,
Respondent.

ON WRIT OF CERTIORARI TO THE
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FOR THE FEDERAL CIRCUIT

BRIEF FOR CISCO SYSTEMS, INC., DELL INC., AND INTEL CORPORATION AS *AMICI CURIAE* IN SUPPORT OF REVERSAL

INTEREST OF THE *AMICI CURIAE*[1]

Amici are leading businesses in the information-technology and electronics industries. *Amici* design, manufacture, and sell hardware and software that others incorporate into hundreds of sophisticated and innovative products, systems, and methods. For example, *amici*'s products are found in laptops, smart

[1] Pursuant to Rule 37.6, *amici* certify that no counsel for a party authored this brief in whole or in part, and that no person or party, other than *amici* or counsel made a monetary contribution to the preparation or submission of this brief. This brief is filed with the parties' written consent, which is on file with the Clerk.

phones, netbooks, financial systems, communication systems, medical devices, ATMs, security systems, air-traffic control systems, radar systems, military systems, aircraft, automobiles, and televisions, among other commonplace electronic products. Because *amici*'s products can be used in such varied combinations, and because they are amenable to manifold uses in consumer and commercial electronic goods and services, *amici* are susceptible to allegations of secondary liability based on their manufacture and sale of products with legitimate commercial purposes. *Amici* accordingly have a strong interest in ensuring that the active inducement provision of 35 U.S.C. § 271(b) is enforced according to its terms, which reflect Congress's careful balancing of the patentee's rights in its particular invention against the public's strong interest in legitimate commerce and innovation.

In this brief, *amici* explain why the Federal Circuit's decision adopts a state-of-mind standard for Section 271(b) that contravenes the language, legislative history, and policy rationale of the statute. *Amici* also explain that the Federal Circuit's decision, if allowed to stand, will burden to an unacceptable degree legitimate innovation and trade in products that have substantial non-infringing uses. Accordingly, *amici* respectfully submit that the judgment of the Federal Circuit should be reversed.

SUMMARY OF THE ARGUMENT

In *MGM Studios, Inc.* v. *Grokster, Ltd.*, 545 U.S. 913 (2005), this Court emphasized that the liability standard for inducement of copyright infringement is limited, targeting only "purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a

lawful promise." *Id.* at 937. This Court explicitly tied its reasoning in the copyright context to similar decisions in the context of active inducement of patent infringement under 35 U.S.C. § 271(b).

Until the decision below, federal courts—including the Federal Circuit—were generally in accord that, to prove active inducement of patent infringement, a patentee was required to prove (among other things) that the defendant *actually knew* of the patent's existence.[2] *See DSU Med. Corp.* v. *JMS Co.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc) (an inducement claim "necessarily includes the requirement that [the defendant] knew of the patent"); *see also Vita-Mix Corp.* v. *Basic Holding, Inc.*, 581 F.3d 1317, 1328 (Fed. Cir. 2009) ("Inducement requires a showing that the alleged inducer knew of the patent, knowingly induced the infringing acts, and possessed a specific intent to encourage another's infringement of the patent."); *Cortelyou* v. *Charles Eneu Johnson & Co.*, 207 U.S. 196, 200 (1907) (no inducement liability where there was "no sufficient evidence of notice" to the accused inducer because it was not "notified by the plaintiffs of the rights which

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[2] Actual knowledge of the patent is not the only required intent element, though it was the one on which the decision below turned. An inducement plaintiff must also show that the defendant knew of a third party's direct infringement and took affirmative steps with the specific intent to *encourage* it, *i.e.*, it "actively" induced infringement. *See, e.g.*, *MEMC Elec. Materials, Inc.* v. *Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1378 (Fed. Cir. 2005) (requiring "that the alleged infringer knowingly induced infringement and possessed specific intent to encourage another's infringement" (internal quotation marks omitted)).

ney claimed, or that anything which it did was considered by them an infringement upon those rights").[3]

The requirement of actual knowledge of the patent reflected Congress's proper balancing of the public interest in fostering innovation against the patentee's right to intellectual property protection. Patentees could demonstrate a defendant's actual knowledge through circumstantial evidence, or by showing that the defendant possessed the legal equivalent of actual knowledge—*e.g.*, that the defendant was willfully blind to, or consciously avoided learning of, the existence of the patent. The Federal Circuit's decision, however, allows an infringement plaintiff to press an active inducement claim without proof—indeed, without even an *allegation*—that the defendant actually knew of the patent-in-suit or possessed the legal equivalent of actual knowledge, as long as the plaintiff asserts that the defendant "deliberately disregarded a known risk" that a patent existed. Pet. App. 31a. In addition to permitting liability for what is essentially recklessness, the court appeared to countenance an even lower "constructive knowledge" standard. *Id.* at 28a; *see also id.* at 49a (district court opinion holding that "an inducer must have actual or constructive knowledge of the patent").

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[3] *See also, e.g., Cybiotronics, Ltd.* v. *Golden Source Elecs., Ltd.*, 130 F. Supp. 2d 1152, 1165-1166 (C.D. Cal. 2001) ("A finding of actual knowledge of the patent is clearly a prerequisite to finding that an accused infringer 'actively induced' infringement of that same patent."); *Black & Decker (US) Inc.* v. *Catalina Lighting, Inc.*, 953 F. Supp. 134, 138 (E.D. Va. 1997) (a plaintiff must prove "an inducer's knowledge of the asserted patent" in order to prove induced infringement).

The Federal Circuit's new standard, if upheld, would "block the wheels of commerce." *Henry* v. *A.B. Dick Co.*, 224 U.S. 1, 48 (1912). All issued patents are public, and thus a "constructive notice" standard risks eliminating any meaningful requirement of knowledge of the patent in active inducement cases, thereby exposing innocent companies that sell non-infringing, general-purpose products to liability for supposedly encouraging infringement of patents that they did not even know about. "Deliberate disregard of a known risk" paves the way for any plaintiff to reach the jury merely by alleging that the defendant "deliberately disregarded" the ever-present "risk" of unexpired patents that purportedly cover a downstream use that customers make of the defendant's product, even if the product has numerous other, non-infringing uses.

It is unclear what a manufacturer of general-purpose products like *amici* could do to protect against an inducement lawsuit under the Federal Circuit's standard. A plaintiff could always argue that any patent search that did not uncover the patent-in-suit was insufficiently diligent—an allegation that is easily made in a complaint, will surely result in protracted and costly discovery, and is unlikely to be adequately policed for support short of a full-blown trial.

The established standards of actual knowledge of the patent and "active" conduct undertaken with culpable intent to encourage infringement comport with the statute's policy goal of protecting innovation while not unduly inhibiting lawful commerce. The Federal Circuit's judgment should be reversed and the case remanded for further proceedings in light of the correct standard.

ARGUMENT

I. ACTIVE INDUCEMENT OF PATENT INFRINGEMENT UNDER SECTION 271(b) REQUIRES ACTUAL KNOWLEDGE OF THE PATENT'S EXISTENCE AND CULPABLE INTENT TO ENCOURAGE INFRINGEMENT

The law is "reluctan[t] to find liability when a defendant merely sells a commercial product suitable for some lawful use." *MGM Studios, Inc.* v. *Grokster*, 545 U.S. 913, 936 (2005). Section 271(b), which imposes secondary liability for "actively induc[ing]" infringement, permits just such a result and, for that very reason, must be carefully circumscribed to ensure that it does not punish legitimate commercial behavior.

Congress and this Court have been careful to ensure that the sale of staple articles or general-purpose goods (*i.e.*, goods with substantial non-infringing uses) does not trigger inducement liability absent specific, culpable intent to encourage downstream infringement—a standard that necessarily requires (among other things) that the defendant know of the intellectual property protection at issue. The Federal Circuit improperly disregarded that critical limitation in the present case. Under the standard articulated by the Federal Circuit, inducement liability could be imposed for the sale of goods with legitimate and substantial non-infringing uses, even when the accused inducer was wholly unaware that the acts it encouraged infringed a valid patent. Such a standard is detrimental to innovation and the patent system and contrary to the constitutional mandate that the patent system "promote the *Progress* of ... useful Arts." U.S. Const. art. I, § 8, cl. 8 (emphasis added).

A. This Court's Decision In *Grokster* Requires Actual Knowledge And Culpable Intent In The Analogous Context Of Copyright Infringement

In *Grokster*, this Court treated inducement liability in the patent and copyright contexts as analogous, recognizing that they were motivated by the same policies and rationales. *See* 545 U.S. at 936-937. Although the Court articulated the inducement test in various ways, each formulation made plain that *actual* knowledge of the patent (or copyright) and *active* steps undertaken with *culpable intent* to "entic[e] or persuad[e]" direct infringement were required. *Id.* at 935 (internal quotation marks omitted); *id.* at 937 (requiring more than "mere knowledge of infringing potential or of actual infringing uses"); *id.* at 936 (requiring "an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged"); *id.* at 936-937 (requiring "clear expression or other affirmative steps taken to foster infringement"); *id.* at 919 (requiring the alleged inducer have "the object of promoting [a] use to infringe"). As the Court explained, requiring such actual knowledge and culpable intent in inducement liability is necessary to ensure that the doctrine "leaves breathing room for innovation and a vigorous commerce." *Id.* at 933.

Indeed, none of the patent cases—or for that matter, the copyright cases—relied upon in *Grokster* permitted a finding of liability based only on constructive knowledge of the intellectual property protection at issue. Rather, in each situation, actual knowledge of the protected right and culpable affirmative conduct to encourage its infringement were required. *See, e.g.*, *Gershwin Publ'g Corp.* v. *Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162-63 (2d Cir. 1971) ("*With*

knowledge that its artists included copyrighted compositions in their performances, CAMI created the Port Washington audience as a market for those artists. CAMI's *pervasive participation* ... amply support the district court's finding that it 'caused this copyright infringement.'" (emphasis added)); *Water Techs. Corp.* v. *Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988) (liability for inducement where one "actively and *knowingly* aid[s] and abet[s] another's direct infringement" (emphasis added)).

As the Court explained, the actual-knowledge requirement ensures that inducement liability rests on "purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise." *Grokster*, 545 U.S. at 937. The Court recognized that anything less than this stringent standard would "trench[] on regular commerce or discourag[e] the development of technologies with lawful and unlawful potential." *Id.*

This rationale applies with equal if not greater force in the patent context. Technology companies often face inducement suits based on their manufacture and sale of hardware and software with a myriad of substantial non-infringing uses. In such cases, direct infringement is alleged to arise only when the products are used by downstream customers or end-users in combination with other products or in particular methods. The Federal Circuit's suggestion that inducement liability could be imposed based on "constructive knowledge" of a patent's public existence and its direct infringement by a third party potentially exposes manufacturers to inducement liability in a broad array of technological fields, and even for unanticipated innovative uses of their products. The actual-knowledge standard is an essential limitation to ensure that the

law "absolves the equivocal conduct of selling an item with substantial lawful and unlawful uses, and limits liability to instances of *more acute fault* than the mere understanding that some of one's products will be misused. It leaves breathing room for innovation and a vigorous commerce." *Grokster*, 545 U.S. at 932-933 (emphasis added).

B. The Text And Legislative History Of Section 271(b) Require The Plaintiff To Prove "Actual Knowledge" And Culpable Intent

Requiring actual knowledge of the patent and culpable intent to encourage infringement correctly reflects Congress's intent in enacting the "active[] induce[ment]" provision of Section 271(b). As the Federal Circuit has recognized, Section 271(b) requires "specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute infringement." *Ferguson Beauregard/Logic Controls* v. *Mega Sys., LLC*, 350 F.3d 1327, 1341-1342 (Fed. Cir. 2003) (internal quotation marks omitted); *see also Water Techs.*, 850 F.2d at 668 ("Although section 271(b) does not use the word 'knowing,' the case law and legislative history uniformly assert such a requirement."). Indeed, the Federal Circuit has continued to recognize the specific-intent requirement even after the present decision issued. *See, e.g., Wordtech Sys., Inc.* v. *Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1315 (Fed. Cir. 2010) ("[I]nducement requires that the alleged infringer knowingly induced infringement and possessed *specific intent* to encourage another's infringement." (internal quotation marks omitted; emphasis added; alteration in original)).

This requirement is consistent with the view of "one of the main drafters of the [Patent] Act," Judge Giles S. Rich. *Bilski* v. *Kappos*, 130 S. Ct. 3218, 3247-3248 (2010). Shortly after the Act's passage, Judge Rich explained that Section 271(b) differs from Section 271(c) because, "in proving a case under (b) the evidence must establish active inducement and that involves intent." Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 21 Geo. Wash. L. Rev. 521, 537 (1953).

As this Court has indicated, specific intent requires a "bad purpose ... to violate a known legal duty." *Safeco Ins. Co. of Am.* v. *Burr*, 551 U.S. 47, 57-58 n.9 (2007). Given that the "legal duty" in a patent infringement case arises from the patent itself, a defendant cannot have a "purpose" to induce violation of a "known" legal duty if it does not even know that a patent exists and imposes such a duty.

The legislative history of the active inducement statute confirms this understanding by making explicit reference to civil aiding and abetting liability. *See* S. Rep. No. 82-1979, at 8 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2402 ("Paragraph (b) recites in broad terms that one who aids and abets an infringement is likewise an infringer."); H.R. Rep. No. 82-1923, at 9 (1952) (same). Civil aiding-and-abetting liability typically depends on actual knowledge that the primary violator's conduct is wrongful: "liability for aiding or abetting requires, *inter alia*, *proof of knowledge of unlawfulness*, also articulated as intent to violate the law." *United States* v. *Hitachi America, Ltd.*, 172 F.3d 1319, 1337 (Fed. Cir. 1999) (emphasis added); *see also Central Bank of Denver, N.A.* v. *First Interstate Bank of Denver*, 511 U.S. 164, 181 (1994) (aiding and abetting requires "knowing aid to persons" in violation of the

law, "with the intent to facilitate" the violation); *National Presto Indus., Inc.* v. *West Bend Co.*, 76 F.3d 1185, 1196 (Fed. Cir. 1996) ("[A]iding and abetting not only requires assistance, but also knowledge of a wrongful purpose. The purpose must be wrongful at the time of the action with which the abettor is charged." (internal quotation marks omitted)); *Board of Tr.'s of Teamsters Local 863 Pension Fund* v. *Foodtown, Inc.*, 296 F.3d 164, 174 (3d Cir. 2002) ("In order to be found liable for aiding and abetting a breach of a fiduciary duty, one must demonstrate that the party *knew that the other's conduct constituted a breach of a fiduciary duty* and gave substantial assistance or encouragement to the other in committing that breach." (emphasis added)). Given that the legal wrong in patent infringement cases is a violation of a patent, and in light of the sheer number of unexpired patents, it is particularly important that wrongful intent in this context require actual knowledge of the patent. *See* Shapiro, *Injunctions, Hold-Up, and Patent Royalties*, 12 Am. L. & Econ. Rev. 280, 281 (Fall 2010) (1.8 million U.S. patents issued in the decade ending 2009).

C. Inducement Liability Under Section 271(b) Necessarily Requires Greater Culpability Than Contributory Liability Under Section 271(c)

The Federal Circuit's decision also is inconsistent with the broader statutory scheme in which Section 271(b) was enacted. In Section 271(c), Congress separately imposed contributory liability on parties that sell, offer for sale, or import components "knowing the same to be especially made or especially adapted for use in an infringement of [a] patent, and not a staple article or commodity of commerce suitable for substan-

tial noninfringing use." 35 U.S.C. § 271(c). Contributory infringement does not require proof of specific intent to encourage infringement because, as this Court recognized in *Grokster*, "where an article is good for nothing else but infringement, there is no legitimate interest in its unlicensed availability, and no injustice in presuming or imputing an intent to infringe." *Grokster*, 545 U.S. at 932 (internal quotation marks and citation omitted). That is, the intent to infringe can be inferred precisely because the component has no substantial non-infringing use.

Contributory infringement does, however, "require a showing that the alleged contributory infringer *knew* that the combination for which his component was especially designed *was both patented and infringing*." *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964) (emphasis added). *Aro* has regularly been interpreted to impose the requirement that a plaintiff alleging contributory infringement demonstrate that the defendant actually knew of the patent. *See, e.g.*, *Celotex Corp.* v. *V.E. Power Door Corp.*, No. 77 C 532, 1979 WL 25068, at *3 (E.D.N.Y. July 13, 1979) (unpublished) ("The opinions of Justices White and Black, in unmistakable terms, state that § 271(c) requires actual, not constructive, knowledge of the patent allegedly infringed. Joining these separate opinions with the opinion of the court, there can be no question that, under *Aro*, actual knowledge is required under § 271(c)."); *see also Ductmate Indus., Inc.* v. *Famous Supply Corp.*, 55 F. Supp. 2d 777, 786 n.10 (N.D. Ohio 1999) (liability under Section 271(c) requires proof "that the accused indirect infringer have actual knowledge of the patents in question"); *R2 Med. Sys., Inc.* v. *Katecho, Inc.*, 931 F. Supp. 1397, 1441 (N.D. Ill. 1996) (holding that, under Section 271(c), a "patentee must demon-

strate that the defendant had actual knowledge of the asserted patent").

In contrast to Section 271(c), inducement liability under Section 271(b) can be imposed regardless of whether the component has substantial non-infringing uses. *See, e.g., Astrazeneca LP* v. *Apotex, Inc.*, __ F.3d __, 2010 WL 4286284, at *15 (Fed. Cir. Nov. 1, 2010). In other words, the *activity* that is targeted by a Section 271(b) claim is not problematic in itself, in contrast to cases of direct infringement under Section 271(a), where the defendant's accused product or activity *necessarily* infringes, or cases of contributory infringement under Section 271(c), where the defendant's component has *no substantial non-infringing use*. Accordingly, whereas intent can be inferred in a contributory-inducement case from the absence of any non-infringing use for the component, an inducement case under Section 271(b) necessarily requires a separate showing of culpable intent, because the defendant's conduct has a "lawful promise" (*Grokster*, 545 U.S. at 937), there is a "legitimate public interest" in an accused component's availability (*id.* at 932), and it is only the actions of *others* that give rise to the patent's infringement. Unless properly limited, Section 271(b) has the risk of affecting *lawful* commercial activities.

As this Court recognized, the patent and copyright laws effect the necessary limitation by imposing inducement liability only in situations where the defendant actually knows of the relevant intellectual property protection and specifically intends its infringement. *See Grokster*, 545 U.S. at 937. Indeed, decisions rendered prior to Section 271's enactment in 1952 "required, if anything, a *greater* showing of knowledge and intent where the defendant induced infringement other than by sale of a component especially designed for in-

fringing use." 5 *Chisum on Patents* § 17.04[2] (2010) (emphasis added); *see also* Lemley, *Inducing Patent Infringement*, 39 U.C. Davis L. Rev. 225, 238 n.67 (2005).

The Federal Circuit's decision disregarded the settled requirement that an inducement claim must rest on conduct more culpable than a contributory infringement claim. Indeed, the decision below appeared to make it *easier* in many cases to prove inducement of infringement than contributory infringement. The Federal Circuit permitted Section 271(b) liability based on "deliberate disregard of a known risk" or even "constructive knowledge" that a relevant patent exists and is infringed—a standard far below the requirement of "knowledge" of the patent and infringement that this Court held in *Aro* was required for contributory infringement liability. Thus, in cases where the defendant had no knowledge of the patent's existence, the Federal Circuit's ruling would appear to make it easier to saddle a company with liability if its products have substantial non-infringing uses than if they do not—a topsy-turvy system that finds no support in the Patent Act or the policy rationales that underlie it.[4]

[4] In other contexts, the Federal Circuit has expressly warned against interpreting Section 271(b) in a manner that makes inducement liability easier to establish than contributory liability. *See, e.g.*, *Warner-Lambert Co.* v. *Apotex Corp.*, 316 F.3d 1348, 1365 (Fed. Cir. 2003) ("Especially where a product has substantial non-infringing uses, intent to induce infringement cannot be inferred even when the defendant has actual knowledge that some users of its product may be infringing the patent.").

D. Actual Knowledge May Be Proven By Circumstantial Evidence And Through The Legal Equivalents Of Willful Blindness And Conscious Avoidance

As the foregoing discussion makes clear, actual knowledge of the underlying patent is necessary (though not sufficient) to prevail on an inducement claim. If "deliberate disregard of a known risk" that a patent exists constitutes knowledge at all, it is constructive knowledge at best. *See, e.g.*, *City of Canton* v. *Harris*, 489 U.S. 378, 396 (1989) (O'Connor, J., concurring in part and dissenting in part) (liability for "deliberate indifference" is appropriate when policymakers are "on actual or constructive notice" of the need to train), cited with approval in *Farmer* v. *Brennan*, 511 U.S. 825, 841 (1994).[5]

The Federal Circuit's adoption of a "deliberate indifference" standard may have been driven by a concern that defendants who take deliberate steps to avoid learning about the patent-in-suit should not necessarily evade liability. But actual knowledge of the patent—like the additional requirement of culpable intent to encourage infringement—can be established through circumstantial evidence. *See, e.g.*, *United States* v. *Santos*, 553 U.S. 507, 521 (2008) ("As for the knowledge element of the money-laundering offense—knowledge that the transaction involves profits of unlawful activity—that will be provable (as knowledge must almost always be

[5] This Court made clear in *Farmer* that deliberate indifference is a form of recklessness. 511 U.S. at 839-840. We are aware of no ruling suggesting that a finding of active inducement can be premised on a defendant's mere recklessness in failing to discover the patent.

proved) by circumstantial evidence."); *Water Techs.*, 850 F.2d at 668 ("While proof of intent is necessary, direct evidence is not required; rather, circumstantial evidence may suffice."); *Woodman* v. *WWOR-TV, Inc.*, 411 F.3d 69, 83-84 (2d Cir. 2005) ("'Knowledge' is a fact often established—even in criminal cases where the prosecution's burden is beyond a reasonable doubt—simply through circumstantial evidence.").

Actual knowledge can also be proven through the familiar doctrines of "willful blindness" and "conscious avoidance." Unlike deliberate indifference to a known *risk*, which requires only that a party be aware of the existence of a *possibility* that a particular fact is true (no matter how negligible the possibility), those doctrines require that a party actively "take[] steps to make sure that [it] does not acquire full or exact knowledge." *United States* v. *Giovannetti*, 919 F.2d 1223, 1228 (7th Cir. 1990); *see also Kirschner* v. *Bennett*, 648 F. Supp. 2d 525, 544 (S.D.N.Y. 2009). Thus, while deliberate indifference to a known risk demonstrates only *constructive* knowledge, "knowledge consciously avoided is the legal equivalent of knowledge actually possessed." *United States* v. *Svoboda*, 347 F.3d 471, 480 (2d Cir. 2003); *see also Holder* v. *Humanitarian Law Project*, 130 S. Ct. 2705, 2740 (2010) (Breyer, J., dissenting).

A jury properly charged under the active-inducement statute may accordingly consider all the relevant facts in determining whether a defendant actually knew of the patent's existence. The actual-knowledge standard properly cordons off legitimate commerce from secondary liability; it is faithful to the text, legislative history, and policy rationales of the

statute and imposes no undue burden on patentees to prove their claims.[6]

II. The Federal Circuit's Decision Improperly Burdens Legitimate Commerce In Products With Substantial Non-Infringing Uses

The Federal Circuit's decision is particularly troubling for the information technology industry, which is one of the Nation's most vital sectors. General-purpose products like microprocessors and routers can be incorporated into numerous other products or systems and—when combined with software—can be used in almost limitless ways. Most of those downstream uses are non-infringing. But if a patentee can allege that one or more end-users have created a combination or performed a method that infringes a patent, the temptation becomes great to sue not only the direct infringer, but also any manufacturer that supplied a portion of the system or method used by the direct infringer—if for no other reason than that the manufacturers typically have deeper pockets. Recently, such suits have proliferated not only in frequency, but also in the number of defendants that patentees choose to target—and not just in the information technology industry. *See, e.g.*, *Wacoh Co.* v. *Chrysler, LLC*, No. 08 Civ. 456 (W.D.

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[6] In this case, the jury was never asked to determine whether Respondent had proven—by circumstantial evidence or otherwise—that Petitioners had actual knowledge of the patent-in-suit. The jury charge permitted a finding of liability as long as the jury found that Petitioners "*should have known* that their actions would induce actual infringement." J.A. 148a (emphasis added). *Amici* take no position on whether a reasonable and properly-instructed jury could have found for Respondent on the present record.

Wis.) (claims of active inducement brought against nine major automobile manufacturers for infringement of patent on air bag restraint component).

The requirement that a plaintiff demonstrate that an alleged inducer specifically intend to encourage infringement—including acting with knowledge of the patent and the infringement—is essential to prevent patentees from halting the commercialization of general-purpose products that have substantial non-infringing uses. If there were no meaningful intent requirement, it is difficult to imagine what steps an honest manufacturer of a multi-purpose product could reasonably take to avoid secondary liability litigation. Given the impossibility of anticipating the numerous uses to which a downstream purchaser could put a multi-purpose product—particularly given the ease with which users can write their own software or download software written by others—it would be difficult, if not impossible, to craft a patent search to cover all such uses. And any patent search that failed to uncover the patent-in-suit would be challenged as insufficiently prescient and accordingly "deliberately indifferent" to the "known risk" that the product could be put to another, unanticipated use that was covered by an unknown patent.

Indeed, under the Federal Circuit's decision here, a patent search actually risks complicating future litigation, as plaintiffs will take discovery into the scope of patent counsel's inquiry and expert witnesses would debate whether a reasonable patent attorney would have cast a wider net. The decision below could likely lead federal courts to create common-law rules of acceptable diligence in patent searches. The consequence will be fewer useful technologies in areas where patents are plentiful, for fear that a plaintiff could later

charge that the company was "deliberately indifferent" to a "known risk" that one of those many patents arguably covered a subsequent use to which a product was put by a downstream customer. *See Bilski*, 130 S. Ct. at 3231 (Stevens, J., concurring) ("In the area of patents, it is especially important that the law remain stable and clear.").[7]

The Federal Circuit's standard would essentially put manufacturers of general-purpose products at risk of being accused under almost any issued patent. Moreover, it would encourage a patentee not to disclose infringement contentions early (which might permit a defendant to design around them), but instead to lie in wait until research and development costs were sunk, a market for the product was established, and the defendant is more likely to settle an inducement lawsuit rather than risk an injunction against a major product. The established rule that inducement liability depends on knowledge of the patent-in-suit and its infringement has the opposite, salutary effect of encouraging the plaintiff to disclose the patent early.

Of course, actual knowledge of the patent-in-suit is a necessary, but not sufficient basis for finding active inducement. A patentee must also show that the alleged inducer took affirmative steps that "knowingly induced infringement and possessed specific intent to encourage another's infringement." *MEMC Elec. Materials, Inc.* v. *Mitsubishi Materials Silicon Corp.*, 420

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[7] Indeed, the Federal Circuit's decision risks resurrecting precisely the unworkable standards for evaluating the advice-of-counsel defense that the *en banc* Federal Circuit jettisoned in *In re Seagate Technology, LLC*, 497 F.3d 1360, 1368-1369 (Fed. Cir. 2007) (en banc).

F.3d 1369, 1378 (Fed. Cir. 2005). But by making inducement liability possible without even proof of knowledge of the patent and its infringement, the Federal Circuit potentially put makers of general-purpose products with substantial non-infringing uses in a situation where liability can neither be anticipated nor protected against.

If not reversed, the decision below will severely affect companies' willingness and capability to bring innovative general-purpose products to market. The Federal Circuit's rule provides no offsetting benefit to counterbalance the serious harm that it threatens to one of the national economy's most vibrant sectors. *See* Bessen & Meurer, *Patent Failure* 8-9 (2008) ("The expected costs of inadvertent infringement imposes a *dis*incentive on technology investors. Potential innovators consider not only the reward that they might reap from owning patents, but also the risk of being sued for infringing upon the patents of others. Clearly, if the risk of inadvertent infringement is too great, the net incentives provided by the patent system will be negative, and patents will fail as a property system."); Long, *Information Costs in Patent and Copyright*, 90 Va. L. Rev. 465, 468 (2004) (developers should have "at least enough information to determine where the boundaries of protection lie so as to fulfill their legal duties of avoiding infringement").

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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AMICUS CURIAE BRIEF

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GLOBAL-TECH APPLIANCES, INC., and PENTALPHA ENTERPRISES, LTD.,

Petitioners,

v.

SEB S.A., INC.,

Respondent.

On *Writ Of Certiorari* To The United States Court Of Appeals For The Federal Circuit

BRIEF OF *AMICI CURIAE* THE CLEARING HOUSE ASSOCIATION AND SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION IN SUPPORT OF PETITIONERS

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INTERESTS OF THE *AMICI CURIAE*[1]

Established in 1853, *Amicus Curiae* The Clearing House is the nation's oldest banking association and payments company. The Clearing House Association L.L.C. ("TCH") is owned by the world's largest commercial banks, which collectively employ 1.4 million people in the United States and hold more than half of all United States deposits. TCH is a nonpartisan advocacy organization representing – through regulatory comment letters, *amicus* briefs and white papers – the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost $2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the United States.

Amicus Curiae Securities Industry and Financial Markets Association ("SIFMA") is a trade association representing the shared interests of hundreds of

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[1] No counsel for a party or a party to this proceeding authored this brief in whole or in part and no counsel for a party or party to this proceeding made a monetary contribution intended to fund either the preparation or the submission of this brief. No person other than *Amici Curiae*, their members, or their counsel made a monetary contribution to the preparation or submission of this brief. Petitioners and Respondent have filed with this Court blanket consents to the filing of *amicus* briefs.

securities firms, banks, and asset managers. SIFMA members include the leading investment banks, broker-dealers, and mutual fund companies. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation, and economic growth, while building trust and confidence in the financial markets. SIFMA is the U.S. regional member of the Global Financial Markets Association ("GFMA").

The financial markets rely heavily on computerized systems for information processing. As such, today's financial-services industry (the "Industry") is built on extensive relationships and transactions among banks, brokerage firms, depositories, data processors, market-data vendors, exchanges, and clearing entities. These systems and subsystems embody devices, processes, software, and business methods that in many cases pre-existed new patents. This interdependence of systems and subsystems, and on the provision of financial products and services to other financial entities and corporate and retail banking customers, makes the Industry a ripe target for claims of inducement of patent infringement.

The "purposeful, culpable expression and conduct" standard set by this Court in *MGM Studios v. Grokster, Ltd.*, 545 U.S. 913 (2005) is the correct standard for determining the state-of-mind element for inducement of patent infringement. TCH believes that upholding the Federal Circuit's lower "deliberate indifference of a known risk" standard of inducement

would be detrimental to the global economy. The Industry is a frequent target of non-practicing entities ("NPEs") in patent-infringement actions. NPEs do not make or market any products. In many cases, their principal or even sole business is to buy or develop patents and then license them to those companies that use a product or business method that is somehow related, however remotely, to the patent. Financial-services companies may learn of patents held by NPEs and other parties through various communications or through their business activities. From time to time, financial-services companies receive unsolicited letters from NPEs offering to license or sell patents. If a company ignores the initial NPE letter or does not agree to license or purchase the patent, the NPE may sue, alleging patent infringement with the hope of achieving a fast settlement. *See* Thomas S. Kim & Michael D. Stein, *Patent Value: Increased Interest Extends Beyond "Trolls,"* LEGAL INTELLIGENCER, July 25, 2005 (describing NPEs as entities that extract profits by offering a target entity an option of purchasing a license or facing litigation). TCH is concerned that the lower "deliberate indifference" standard of inducement provides an even greater incentive for NPEs to assert questionable claims of inducement against the Industry, particularly in light of the extensive relationships and transactions among banks, brokerage firms, customers, depositories, data processors, market-data vendors, exchanges, and clearing entities.

The cost of defending against a single patent-infringement action is substantial. TCH is concerned that affirming the "deliberate indifference" standard would make TCH's members even more vulnerable to NPEs with questionable patents looking to extract a quick settlement. Any person with a financial interest in the global economy – in other words, everyone – shares this burden. TCH is interested in making certain that accused inducers are given a fair opportunity to defend against questionable claims of induced infringement. This opportunity can only be assured if the standard of liability for patent-infringement inducement is maintained at the higher "purposeful, culpable expression and conduct" set by this Court in *Grokster*.

SUMMARY OF ARGUMENT

The text of the inducement statute provides that "[w]hoever *actively* induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b) (emphasis added). Not only does the inclusion of the term "actively" make clear that Congress intended a state-of-mind element, but the term "actively," by definition, means an affirmative act. A "deliberate indifference," by definition, refers to *inaction*. The Federal Circuit's "deliberate indifference" standard runs afoul of the letter and spirit of the text of the statute and the legislative history.

Section 271(b) has been interpreted consistently as requiring an intent element. However, in *SEB, S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360 (Fed. Cir. 2010), the Federal Circuit departed from this Court's holding in *Grokster* and lowered the requisite intent standard to prove induced infringement under Section 271(b).

In *Grokster*, a copyright case applying patent law, this Court held that the state-of-mind element for actively inducing infringement requires a "purposeful, culpable expression and conduct." *Grokster*, 545 U.S. at 937. Following *Grokster,* the Federal Circuit, in *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006) (*en banc*), held that the culpable mental state for actively inducing patent infringement requires that the alleged infringer (1) knew or should have known that his actions would induce infringement and (2) had *actual knowledge* of the patent being infringed. Nonetheless, the Federal Circuit in the instant case departed from this Court's precedent in *Grokster* and its own teachings in *DSU Medical*.

In *SEB*, the Federal Circuit stated that the requisite state of mind for induced infringement under Section 271(b) is a "deliberate indifference of a known risk" that an infringement may occur. *SEB*, 594 F.3d at 1377. This lower standard of liability does not require an *active and affirmative* intent that the product be used to infringe, as required by *Grokster* and the text of the statute itself.

Where a party is put on notice of another's patent rights, there is no affirmative duty to determine whether he is directly infringing the patent. In *Seagate,* the Federal Circuit confirmed that there is no affirmative obligation to obtain an opinion of counsel when a party receives notice of another's patent and that the failure to do so does not give rise to willful infringement. *In re Seagate Technology, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007). Under the "deliberate indifference" standard, however, if a party rightfully decides not to seek an opinion of counsel after becoming aware of the existence of a patent, that party could nonetheless be charged with inducement of patent infringement. The Federal Circuit's application of the "deliberate indifference" standard in *SEB* undermines the express determination in *Seagate* that there is no affirmative duty to seek an opinion of counsel. In effect, *SEB* reinstates the very duty that the Federal Circuit itself discarded in *Seagate*.

The inherent conflict between the Federal Circuit's standard for inducing infringement in *SEB* and its standard for willful infringement under *Seagate* has the potential to lead to absurd and inconsistent results. For example, under the "deliberate indifference" standard of *SEB*, a party could be subject to liability for "actively inducing" others to commit infringing acts, based on facts that would not give rise to a claim for willfully engaging in direct infringement.

The Industry is particularly vulnerable to patent disputes. It is a target of patentees holding questionable patents and NPEs, whose entire business consists of enforcing the patents they own. Holding accused infringers liable under the "deliberate indifference" standard adds to the NPEs' incentive to continue to harass the financial industry with unsolicited requests for licensing agreements, often followed by protracted litigation. Maintaining the "deliberate indifference" standard will likely have the effect of requiring the Industry to affirmatively investigate *every* patent that is the subject of *every* unsolicited communication identifying a patent or offering to license or sell one, an onerous undertaking that is not otherwise required under *Seagate*.

Unlike most other industries, the Industry does business with virtually every segment business and society. The "deliberate indifference" standard could be interpreted to, in effect, require companies in the Industry not only to investigate all relevant patents in the financial-services field, but also to survey the technical fields and thereafter investigate the patents of the numerous customers of the Industry.

Under the "deliberate indifference" standard, a jury could find that the accused inducer had a "deliberate indifference to a known risk" that an infringement could occur in virtually any situation. For example, if a company learns of a patent through an unsolicited communication from a patent owner but does not obtain an opinion of counsel as to all patents referenced in that letter, the company could be

alleged to have had a "deliberate indifference to a known risk" of patent infringement. Similarly, an accused inducer of a patent in the financial-services field that does not conduct a patent search in such field before launching a financial product or service could be held to have a deliberate indifference to a known risk of infringement. As well, an accused inducer that conducts a patent search before launching a product or service but does not obtain an opinion of counsel risks liability under the "deliberate indifference" standard. These scenarios are just a sampling of the many fact patterns that highlight the inadequacy and lack of clarity of the Federal Circuit's "deliberate indifference" standard.

The Industry has seen monumental growth in the past 50 years, in part due to technological advances that allow transactions to be processed reliably and rapidly. Today, nearly half of all United States households invest in the markets and nearly three-quarters use online banking or bill-paying services. Because financial-services markets operate across borders, an actual or threatened disruption of any part of the Industry as a result of a patent dispute can have global implications. If the patent dispute stems from anything less than purposeful conduct within the Industry, the cost to society of such an interruption is difficult to justify.

Holders of patents, with their presumed validity, already enjoy an advantageous position in any patent-infringement dispute. Affirming the lower "deliberate indifference" standard will further tilt the

playing field by increasingly forcing businesses in the financial sector to enter into settlement agreements or licensing agreements to avoid a catastrophic disruption to their services or lengthy, expensive litigation where the balance of power remains with the patentees, whose standard of proof in proving liability is lower than the standard for negligence. Recent transparency laws enacted by Congress may encourage patentees who are bent on enforcing questionable patents to assert claims of induced infringement against large financial institutions in an effort to tap into "deep pockets." For the reasons summarized above and discussed below, TCH respectfully asks the Court to overturn the Federal Circuit's ruling.

ARGUMENT

Petitioners ask the Court to clarify a very narrow question: whether the legal standard for the state-of-mind element of a claim for actively inducing infringement under 35 U.S.C. § 271(b) is "deliberate indifference of a known risk" that an infringement may occur, as the Court of Appeals for the Federal Circuit held, or "purposeful, culpable expression and conduct" to encourage an infringement, as this Court held in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005). To that end, TCH adopts Petitioners' brief in full and agrees that the proper standard is

"purposeful, culpable expression and conduct" to encourage an infringement, as this Court has held.

I. The Federal Circuit's "Deliberate Indifference" Standard Conflicts With This Court's Holding In *Grokster* And The Federal Circuit's Prior Teachings.

The Federal Circuit's "deliberate indifference" standard is at odds with this Court's holding in *Grokster* on the requisite state-of-mind element for inducement. Further, the lack of clarity in the Federal Circuit's holding will lead to inconsistent rulings in lower courts. As this Court has warned, "courts must be cautious before adopting changes that disrupt the settled expectations of the inventing community." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002) (citing *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 28 (1997)).

A. Historically, Inducement Liability Has Required Affirmative Conduct.

The text of the statute provides that "[w]hoever *actively* induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b) (emphasis added). Not only does the inclusion of the term "actively" make clear that Congress intended a state-of-mind element, but the term "actively," by definition, means an affirmative act. A "deliberate indifference," by definition, refers to *inaction*. The Federal Circuit's

"deliberate indifference" standard, therefore, runs afoul of the letter and spirit of the text of the statute and the legislative history.

Statutory liability for inducement of infringement derives from the common law in which acts that the actor *knows* will lead to the commission of a wrong by another place shared liability on the actor. *See National Presto Indus. v. West Bend Co.*, 76 F.3d 1185, 1194 (Fed. Cir. 1996). The Federal Circuit has repeatedly held that inducement liability under Section 271(b) requires a showing of specific intent to induce infringement; mere knowledge of possible infringement by others does not amount to inducement. *See, e.g., Warner-Lambert Co. v. Apotex Corp.*, 316 F.3d 1348, 1364 (Fed. Cir. 2003) ("Precedent holds that . . . specific intent and action to induce infringement must be proven"); *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990) ("It must be established that the defendant possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement."). Further, the legislative history of the inducement standard refers to "aiding and abetting" and is reflected in the text of the statute, which limits liability to instances where the defendant "actively" induces infringement. *See* S. Rep. No. 82-1979, at 8 (1952) ("One who actively induces infringement as by aiding and abetting the same is liable as an infringer."); H.R. Rep. No. 82-1923, at 9 (1952) ("Paragraph (b) recites in broad terms that one who aids and abets an

infringement is likewise an infringer."); *see also C.R. Bard, Inc. v. Advanced Cardiovascular Systems, Inc.*, 911 F.2d 670, 675 (Fed. Cir. 1990) ("A person induces infringement under 35 U.S.C. § 271(b) by actively and knowingly aiding and abetting another's direct infringement.") (citation omitted).

The Federal Circuit's holding in *SEB* ignores decades of firmly-rooted authority that a defendant must undertake some *affirmative act* and have *actual knowledge* of the patent-in-suit in order to be potentially liable as an active inducer. *See, e.g., Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1364 n.4 (Fed. Cir. 2006) (explaining that the inducing-infringement standard was satisfied "because it is undisputed that [the alleged infringer] had notice of the patent"); *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1380 (Fed. Cir. 2005) (holding that knowledge of the patent is "relevant for supporting proof of intent for inducement"); *cf. Black & Decker (US) v. Catalina Lighting*, 1997 U.S. Dist. LEXIS 5917, at *5 (E.D. Va. Feb. 5, 1997) (finding defendant who lacked knowledge of patent, whether through marking or otherwise, before filing of suit not liable for inducement).

B. The Proper Standard for Inducement Is "Purposeful, Culpable Expression and Conduct."

As the *Grokster* Court unanimously acknowledged, liability for inducing patent infringement under 35 U.S.C. § 271(b) requires "purposeful, culpable expression and conduct." *Grokster*, 545 U.S. at 937. *Grokster* was a copyright case in which this Court considered whether a distributor of software with significant non-infringing uses could be held secondarily liable for copyright infringement if it intentionally designed and advertised its product for an infringing purpose. *See id.* at 941. Borrowing the patent law concept of induced infringement, this Court found secondary copyright liability premised not on mere deliberate indifference of a known risk, but on Grokster's *intentional acts* of encouraging others to infringe the copyright in dispute. In doing so, this Court acknowledged that:

> The rule on inducement of infringement as developed in the early cases is no different today. Evidence of "*active steps* . . . taken to encourage direct infringement," . . . such as advertising an infringing use or instructing how to engage in an infringing use, show an *affirmative intent that the product be used to infringe*, and a showing that infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use.

Id. at 936 (citations omitted) (emphases added). This Court held that the requisite culpable mental state for inducement is:

> . . . one who distributes a device with the object of promoting its use to infringe . . . , *as shown by clear expression or other affirmative steps taken to foster infringement*, is liable for the resulting acts of infringement by third parties . . . [M]ere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. *The inducement rule . . . premises liability on purposeful, culpable expression and conduct.*

Id. at 936-37 (emphasis added).

The Federal Circuit's attempt to equate its new "deliberate indifference" standard with the "purposeful, culpable expression and conduct" standard set forth in *Grokster* is irreconcilable. *Grokster* requires evidence of "affirmative steps" in order to establish the requisite intent, but the Federal Circuit, in lowering this standard, held that *inaction* may give rise to inducement liability under the "deliberate indifference" standard. Not only is the Federal Circuit's holding at odds with *Grokster*, but also, as a matter of law and logic, one cannot have the requisite affirmative intent to foster infringement without at least having actual knowledge of the underlying patent.

It would be inconsistent, and indeed illogical, to maintain differing standards for inducement in copyright and patent disputes, particularly where

this Court in *Grokster* imported from patent law the requisite culpable mental state for induced infringement. Accordingly, because the Federal Circuit has articulated a standard for the state-of-mind element for inducing infringement that is inconsistent with this Court's holding in *Grokster*, this Court should overturn the Federal Circuit's holding.

C. The Federal Circuit's "Deliberate Indifference" Standard Erroneously Departs From Its Prior Holding in *DSU*.

The "deliberate indifference" standard conflicts with the Federal Circuit's own prior *en banc* decision in *DSU Medical*, which correctly applied the higher standard of "purposeful, culpable" conduct for inducement. In *DSU Medical*, the Federal Circuit held that Section 271(b) requires a showing that the alleged infringer "knew or should have known his actions would induce actual infringements," which "necessarily includes the requirement that he or she knew of the patent." *DSU Medical*, 471 F.3d 1304. In *SEB*, however, the Federal Circuit directly addressed this "knowledge" requirement and concluded that actual knowledge of the patent is not required. *SEB*, 594 F.3d at 1377.

In *SEB*, defendant Pentalpha Enterprises, Ltd. ("Pentalpha") copied a version of the patentee's product that it purchased in Hong Kong and that had no patent markings. *SEB*, 594 F.3d at 1366. Pentalpha then hired an attorney to perform a right-to-use

opinion but did not advise its attorney that it had copied a product. The attorney found and analyzed 26 patents and concluded that Pentalpha's deep fryer did not infringe on any of those patents. *Id.* While Pentalpha's president was patent-savvy, there was no direct or circumstantial evidence on the record that Pentalpha knew of patents covering the infringing product. Nonetheless, the panel concluded that induced infringement may stand on this record. The Federal Circuit held that the record supported a conclusion that the party accused of inducement "deliberately disregarded a known risk that SEB had a protective patent," and found this level of culpable conduct sufficient to meet the state-of-mind requirement for inducement. *SEB*, 594 F.3d at 1377.

The Federal Circuit's attempt to reconcile its opinion in *SEB* with *DSU* by explaining that the latter addresses "the target of the knowledge" while the former addresses "the nature of the knowledge" is unsound. *See SEB*, 594 F.3d at 1376. Simply put, one cannot actively induce infringement without at least having knowledge of the underlying patent. By turning *DSU* on its head, the *SEB* decision improperly lowers the state-of-mind element under 35 U.S.C. § 271(b) by concluding that inducement does not, as a threshold matter, require actual knowledge of the patent-in-suit.

D. The "Deliberate Indifference" Standard Undermines The Federal Circuit's Holding in *Seagate*.

Under the Patent Act, a defendant that willfully infringes a patent could be found liable for treble damages and attorneys' fees. Prior to *Seagate*, Federal Circuit precedent suggested that a party that was put on notice that it might be infringing a patent should promptly obtain an opinion of counsel. Unless the opinion concluded either that the company did not infringe or that the patent was invalid, the company risked a finding of willful infringement. In *Seagate*, the Federal Circuit, in an *en banc* decision, raised the bar by requiring clear and convincing evidence of "objective recklessness" on the part of the accused infringer, rather than a mere failure to exercise "due care" to avoid patent infringement. *Seagate*, 497 F.3d at 1371. In expressly abandoning the affirmative duty of due care, the Federal Circuit "reemphasize[d] that there is no affirmative obligation to obtain opinion of counsel." *Id.*

The "deliberate indifference" standard undercuts the Federal Circuit's teachings in *Seagate*. Under this new standard for inducement, a company that chooses not to seek an opinion of counsel upon receiving notice of another's patent could be held liable for deliberate indifference of a known risk of infringement. As crafted, the Federal Circuit's "deliberate indifference" standard circumvents *Seagate* and effectively requires a company to seek an opinion of counsel for every unsolicited request it receives or

else risk liability under this new standard. To require an opinion of counsel as a shield against inducement liability imposes substantial costs on the Industry and other industries that are inundated with unsolicited requests for license agreements from NPEs.

Moreover, the inherent conflict between the Federal Circuit's standard for inducement of infringement in *SEB* and the standard for willful infringement under *Seagate* has the potential to lead to absurd and inconsistent results. Under the "deliberate indifference" standard of *SEB*, a party could be subject to liability for "actively inducing" others to commit infringing acts based on facts that would not be sufficient to support a claim against that party for willfully engaging in direct infringement through its own actions. For example, if a company receives from an NPE a letter that identifies a patent but does not investigate it, the company could be held liable for inducing infringement by its customers. Yet precisely the same conduct would not give rise to willful infringement against the company if it had directly infringed the patent.[2]

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[2] Although intent is not an element for direct infringement under 35 U.S.C. § 271(a), intent is an element for inducement of infringement under 35 U.S.C. § 271(b) and for willful direct infringement. *Seagate*, 497 F.3d at 1368. Intent is not required for direct infringement because the accused direct infringer can control its own actions. Intent is required for a finding of inducement because "[t]here is a definite tendency to impose greater responsibility upon a defendant whose conduct was intended to do harm, or was morally wrong." *Grokster*, 545 U.S.

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E. "Deliberate Indifference," By Definition, Requires An Underlying Duty, But There Is No Underlying Duty in Section 271(b).

In an attempt to find support among this Court's precedent, the Federal Circuit imported the "deliberate indifference" standard from *Farmer v. Brennan*, 511 U.S. 825 (1994), a case involving a constitutional *Bivens* claim under the Eighth Amendment. In *Farmer*, this Court set forth a subjective "deliberate indifference" standard under which liability can attach when the defendant "knows of and disregards an excessive risk." *Id.* at 837. Notably, in *Farmer*, there was an underlying duty to protect prisoners from violence at the hands of other prisoners. Indeed, this Court has traditionally applied the deliberate indifference standard in cases where there is some underlying affirmative duty. *See, e.g., Gebser v. Lago Vista Indep. Sch. Dist.*, 524 U.S. 274, 297 (1998) (applying deliberate indifference standard in a suit for harassment under Title IX, which places a duty on public schools not to discriminate on the basis of gender); *Estelle v. Gamble*, 429 U.S. 97, 105-106 (1976) (holding that due process clause of Fourteenth Amendment requires the state to provide adequate medical care to prisoners and applying deliberate

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913 (quoting PROSSER AND KEETON ON LAW OF TORTS 37 (5th ed. 1984)). Inducement and willfulness are analogous insofar as they arise only when a party has the requisite mental state underlying the acts that give rise to liability.

indifference standard). In sharp contrast, and as the Federal Circuit in *Seagate* re-emphasized, where a party has notice of another's patent rights, there is no affirmative duty to determine whether he is directly infringing the alleged patent. *Seagate*, 497 F.3d at 1371. Thus, the "deliberate indifference" standard cannot be applied to claims of inducement because there is no underlying duty to breach.

Further, the "known risk" in *Farmer* was clear: it is a commonplace that prisons are inherently prone to incidents of violence, and experienced professionals with expertise such as prison guards cannot "bury their heads in the sand" and deliberately ignore this risk. By contrast, because patentability is not intuitively obvious and because the existence of a patent that covers a particular invention is not necessarily discoverable even after an exhaustive search, a "known risk" cannot be said to exist in the context of inducement of patent infringement. More than seven million patents have been issued in the United States. In 2009 alone, the United States Patent and Trademark Office issued nearly 500,000 patents. *See* U.S. Patent Statistics, Calendar Years 1963-2009, available at http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.pdf. In view of the volume of issued patents, it can be difficult for members of the public to identify whether a relevant patent may exist in a particular field. If a "known risk" exists in the patent-inducement context, the Federal Circuit failed to identify it. More fundamentally, it is not clear which

risks, if any, may be "known" in the patent-inducement context (*e.g.*, a "known risk" that patents exist in a particular field, or even a "known risk" outside of a particular field).

The "deliberate indifference" standard leads to the impractical result of requiring companies in the Industry not only to investigate all relevant patents in the financial-services field, but also to survey the technical fields and patents of the millions of customers of the Industry. By failing to articulate clearly what constitutes a "known risk," the Federal Circuit has placed accused inducers in a virtually defenseless position against claims of inducement.

II. Upholding The "Deliberate Indifference" Standard Will Make The Industry Especially Vulnerable To Claims of Inducement By Owners Of Questionable Patents.

Maintaining a "deliberate indifference" standard for inducing patent infringement under Section 271(b) will perpetuate a system that allows patent owners to hold the Industry hostage to claims of infringement based on questionable theories. Financial-services-related patents are being litigated at a rate 27 times greater than that of patents as a whole, and the most frequent plaintiffs in such litigation are overwhelmingly NPEs. Joshua Lerner (2006): *Trolls on State Street?: The Litigation of Financial Patents*, 1976-2005. Working Paper. Last retrieved on November 9, 2010 at http://www.people.hbs.edu/jlerner/Trolls.pdf.

According to Harvard professor Lerner, "Larger entities are disproportionately targeted in litigation." Daniel Pruzin, *Study Suggests That Patents on Financial Products Are More Likely To Be Litigated*, PATENT, TRADEMARK & COPYRIGHT LAW DAILY (July, 8, 2010). Lowering the standard for inducement will serve only to increase the number of patent-infringement claims asserted against the Industry by providing an additional vehicle for alleging questionable theories of liability. Under the "deliberate indifference" standard, industries that are targets of unsolicited licensing requests from NPEs will be virtually defenseless against claims of inducement.

A. The Industry Already Is Burdened By Patent Litigation Asserted by NPEs.

Patents on software, electronics, and business methods have never played as significant a role in the Industry as they do today. That fact was recognized by the Court in *Bilski v. Kappos*, 561 U.S. ___, 130 S. Ct. 3218 (2010), which noted that "business method patents were rarely issued until modern times." *Id.* at ___, 130 S. Ct. at 3219. "Computerized business method patents" affect a number of industries, but "such patents, especially by virtue of the surprise factor, have most seriously affected the financial industry," particularly banking. Frederick C. Williams, *Giving Inter Parties Patent Examination a Chance to Work*, 32 AIPLA Q. J. 265, 268-69 (2004).

NPEs employ aggressive tactics against the Industry. For example, over the past decade, DataTreasury Corporation, an NPE, has sued dozens of banks and financial services, including some of the largest in the United States. *See* Dan Browning, *U.S. Bank penalized in patent case; A federal judge in Texas ordered punitive damages in a dispute over electronic check processing patents*. STAR TRIBUNE (Minneapolis, MN) (Sept. 29, 2010). It is estimated that annual median damages awards for patent infringement range from $2.2 to $10.6 million, with damages awarded to NPEs averaging more than double those for practicing entities since 1995. *See A Closer Look – Patent Litigation Trends and The Increasing Impact of Non Practicing Entities*, PriceWaterhouseCoopers, 2009. Lowering the standard for inducement will open the floodgates for NPEs to assert even more questionable claims of patent infringement and, presumably, thereby inundate district courts.

B. The "Deliberate Indifference" Standard Places the Industry in an Untenable Position.

The Federal Circuit's holding that the intent requirement under Section 271(b) may be satisfied even if there is no "direct evidence that the accused infringer actually knew of the patent-in-suit" is not only at odds with *Grokster* and the Federal Circuit's opinion in *DSU Medical*, but it also is problematic because the Federal Circuit failed to define what

constitutes a "known risk." *SEB*, 594 F.3d at 1377. Under the Federal Circuit's framework for "deliberate indifference," a jury could thus find that the accused infringer deliberately disregarded a known risk that an infringement may occur in virtually any situation, including the following:

- if the accused inducer receives an unsolicited communication identifying a patent but does not obtain an opinion of counsel as to all patents referenced in the letter;
- if an accused inducer of a patent in the financial-services field does not conduct a patent search in such field before launching a financial product or service;
- if an accused inducer of a patent outside the financial-services field does not conduct a patent search outside such field before launching a financial product or service;
- if a financial-services company becomes aware of the existence of a patent in connection with a loan to the patentee or a routine banking transaction, and the patent is subsequently assigned to an NPE and that entity accuses the lender of inducement;
- if a lender does business with Companies A and B (competitors in the same field), thereafter learns of Company A's patent, and then makes a loan to

Company B to build a factory that could be used to infringe Company A's patent;

- if the accused inducer conducted a patent search before launching an accused product or service but does not obtain an opinion of counsel; or
- if the accused inducer obtains a right-to-use opinion that, as is customary, includes a statement that a jury could reach a different conclusion on the issue of infringement.

The lack of clarity in what constitutes a "known risk" places accused inducers in a virtually defenseless position. In cases where the accused infringer was unaware of the patent-in-suit (or simply received the patent as part of an unsolicited invitation to explore a license), it is not difficult to imagine that virtually every patentee will contend that the accused inducer should have been aware of all patents not only in the field of the accused products, but also in other, unrelated fields, and that this circumstance suffices to create a "deliberate indifference of a known risk."

Unlike most other industries, the Industry does business with virtually every segment of industry, business, and society. The "known risk" standard could be interpreted, in effect, to require companies in the Industry not only to investigate all relevant patents in the Industry, but also to survey the technical fields and thereafter investigate the patents of the millions of Industry customers. Similarly, the

Industry often becomes aware of patents in connection with routine transactions such as conducting due diligence investigations prior to loan issuances. It would, therefore, be impracticable to effectively require the Industry to "investigate" each of these patents as a prerequisite to each of its business transactions in order to avoid "known risks."

As the examples above illustrate, a patentee might assert an inducement claim against a member of the Industry for nothing more than providing a loan to an accused direct infringer. If the lender is aware of the patent-in-suit through a routine lending transaction, the lender should not be liable for inducement simply because it did not investigate the patent. To require companies to investigate patents in order to avoid a "known risk" is tantamount to recreating the duty that was expressly abandoned in *Seagate*.

While the Federal Circuit noted that "proof of knowledge through a showing of deliberate indifference may be defeated where an accused infringer establishes that he actually believed that a patent covering the accused product did not exist," the court did not explain how this standard can be met and otherwise, in effect, shifted the burden to the accused inducer. *SEB*, 594 F.3d at 1378. For the Industry and other favorite targets of NPEs, the Federal Circuit's failure to articulate an appropriate standard for actively inducing infringement under Section 271(b) makes it exceptionally difficult for such targets to

protect themselves from speculative patents and overcome trumped-up charges of inducement.

III. It Is In The Public Interest To Overturn The "Deliberate Indifference" Standard, As The Industry Is A Favorite Target Of Patentees Seeking Exorbitant Fees Or Monetary Settlements Based Upon Questionable Claims of Infringement.

It is no secret that the last half-century has seen revolutionary changes within the Industry. The United States, and indeed most of the world, has gone from a paper-based economy to one that cannot be sustained without its supporting technology and business methods. The paper-based financial world of the 1960s has ceased to exist, both in response to the rapid technological changes affecting virtually every industry and to legislative action based upon Congress's recognition that the United States markets are important national assets. *See* H.R. Rep. No. 94-123, at 44 (1975) (*reprinted in* FEDERAL SECURITIES LAWS LEGISLATIVE HISTORY 1933-1982, Vol. III at 2514 (1983)). Accordingly, Congress required the Industry to implement "[m]odern communication and data processing facilities." *See* 15 U.S.C. § 78k-1(a)(1)(A)-(B). Technological advances in the United States alone make the standard of inducement at stake here of vital interest, but it is not just the United States financial markets that are affected by dubious assertions of patent rights and liability theories.

A. Decisions And Settlements Affecting The Industry Impact The Global Economy.

Our economy is global; the markets have become so interdependent that a decision in the United States also affects people well beyond its borders. Indeed, technological advances have brought more trading to the market than ever before. Although it would have been difficult to imagine at one time for the New York Stock Exchange to have traded three billion shares in a year, it is now expected that the technology can support daily trading of well over three billion shares. In February 2008, for example, NYSE-Euronext announced that its United States-based cash-equities exchanges, NYSE and NYSE Arca, had collectively traded an average of 3.9 billion shares per day during the January 2008 trading month. *NYSE-Euronext Business Summary for January 2008*, available at http://nyse.com. That NYSE-Euronext operates a family of exchanges located in six countries, including the New York Stock Exchange, underscores just how interdependent technology has become to the global economy. *Id.*

Everywhere in the Industry is evidence of the daily volume of transactions and the speed with which the economy has come to rely on their occurrence. The underlying business methods and the critical importance of reliably maintaining the systems they support are nowhere more apparent than on today's all-electronic markets and exchanges. At closing time on June 25, 2010, for example, NASDAQ

processed 1.04 billion shares encompassing 2,056 NASDAQ-listed stocks and $11.2 billion in market value in merely 0.885 seconds. *NASDAQ OMX Reports Strong Second Quarter 2010 Results*, available at http://nasdaq.com.

It is not just significant stockholders, of course, who depend on the reliability of the financial markets. Nearly half of all United States households participate in the financial markets, either through direct stock purchases, mutual funds, or retirement accounts. *See, e.g.*, Investment Company Institute & SIFMA, *Equity and Bond Ownership in America, 2008*, available at http://www.ici.org.com/rpt_08_equity_owners-1.pdf. The banking industry also has seen an enormous groundswell in technological advances. Indeed, a recent study suggests that over 36 million United States households now use online bill-payment services and about twice as many use online banking services. Matt Gunn, *Online Banking, Payments Outpace Growth of Internet*, Bank Systems and Technology, May 25, 2010, available at http://www.banktech.com. That usage represents an "84 percent increase in online banking and 78 percent in online bill pay" since 2000. *Id.*

The global financial-services industry relies on its business methods to handle this extraordinary volume of transactions quickly, reliably, and cost-effectively. When there is a disruption in the financial system, the effect is instantaneous, deleterious, and potentially profound. For example, the impact of a technological disruption was dramatically displayed

in May 2010 when a computer error caused the markets to drop precipitously in a 16-minute period. Nelson D. Schwartz & Louise Story, *Surge of Computer Selling After Apparent Glitch Sends Stocks Plunging*, New York Times, May 6, 2010, available at http://www.nytimes.com. The havoc that the threat of an injunction based on a questionable theory of liability could wreak on the financial markets is not difficult to imagine. The Industry asks only that it be equitably and properly enabled to defend itself against claims of inducement by requiring patent plaintiffs to establish purposeful conduct by the alleged inducer as part of a claim for induced infringement. The Industry should not be expected to shield itself against claims of inducing patent infringement based on nebulous allegations concerning "deliberate indifference of a known risk," whatever that may mean.

The Industry has long been committed to providing a secure and reliable environment to all market participants and ancillary parties in a technologically advanced world. To continue maintaining that security and reliability, allowing the Industry to protect its business methods from speculators interested in holding it hostage to dubious claims of inducement, is profoundly important. The lure of exploiting an industry that controls large flows of money to holders of questionable patents is obvious. Holding the Industry and similarly situated parties liable for inducement based on the lower "deliberate indifference" standard creates an unfair playing field and provides an

additional vehicle for NPEs to assert baseless claims of infringement.

B. Lawsuits Based On Questionable Theories of Infringement Are A Plague Upon The Industry That Risks Stifling Innovation.

The Industry is especially vulnerable to patent suits, and, in particular, inducement claims, because it is built on extensive transactions and interdependent relationships among banks, brokerage firms, customers, depositories, data processors, market-data vendors, exchanges, and clearing entities. These systems and subsystems embody devices, processes, software, and business methods that in many cases pre-existed new patents. The pace at which technology moves in the financial sector places the industry at a greater risk of speculative patent applicants rushing to the United States Patent & Trademark Office to obtain a patent solely to maximize their financial opportunities. If the Industry is forced to defend against claims of inducement under the "deliberate indifference" standard, the expense of defending such suits and the risk of losing despite a lengthy and costly litigation battle will likely stifle industry innovation that could otherwise benefit the broader economy. More fundamentally, one of the key functions of the Industry is to assess financial risk in a variety of transactions. Paradoxically, the lower "deliberate indifference" standard would make it even more difficult for institutions to assess financial risk

because it could place at risk, or compromise, the innovative technology used to measure financial risk.

A defendant's cost of litigating a patent dispute is estimated to be at least $1.5 million and may be more than $4 million. Steve Bills, *The Tech Scene: Patent Case Settlements: Economics or Endgame?* Technology, Vol. 173, No. 177, 1, Sept. 12, 2008. Controlling costs is a vital component of innovation for every industry, but nowhere is it more important than in the Industry, where even a momentary technological lapse can have systemic implications for the broader economy. The Industry cannot continue to be given the Hobson's choice of having either to engage in or to settle frivolous patent disputes.

Transparency for the Industry is the byword going forward. Congress has mandated new rules that are intended to forge even more reliable financial markets. While increased transparency is aimed at having a positive effect overall, it leaves the Industry vulnerable to speculative patent applicants and to existing patent holders, many of which are of questionable validity. Applying a lower burden of proof to inducement cases increases the vulnerability of the Industry and other businesses substantially without providing any benefit to society since the lower standard would encourage the filing of questionable claims that involve no purposeful conduct whatsoever concerning a patent. With costs of litigation skyrocketing, more banks and other financial-services companies will be forced to settle and enter

into expensive licensing agreements with holders of questionable patents rather than taking the risk of lengthy, unsuccessful litigation or potential injunctive relief that could cripple the markets.

The purpose of the patent system is to promote innovation, not to invite catastrophe or to encourage holders of questionable patents to turn an easy dollar. The importance and value of control measures that discourage patent speculators and patentees from taking advantage of businesses that are extensively interdependent cannot be over-emphasized. Establishing a level playing field by setting "purposeful, culpable expression and conduct" as the standard for liability under 35 U.S.C. § 271(b) will go a long way toward limiting risks to the Industry that otherwise could have a global impact.

CONCLUSION

For the reasons set forth above, TCH and SIFMA respectfully request that the Court grant Petitioners' request and overturn the Federal Circuit's ruling.

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AMICUS CURIAE BRIEF

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IN THE

Supreme Court of the United States

GLOBAL-TECH APPLIANCES, INC., AND PENTALPHA ENTERPRISES, LTD.,

Petitioners,

v.

SEB S.A.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF COMCAST CORPORATION, FACEBOOK, INC., INTUIT INC., MICROSOFT CORPORATION, NETFLIX, INC., OVERSTOCK.COM, INC., AND SAP AMERICA, INC. AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

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BRIEF OF COMCAST CORPORATION, FACEBOOK, INC., INTUIT INC., MICROSOFT CORPORATION, NETFLIX, INC., OVERSTOCK.COM, INC., AND SAP AMERICA, INC. AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

INTEREST OF *AMICI CURIAE*[1] AND SUMMARY OF ARGUMENT

This case presents the question of the degree of knowledge a defendant must possess to be held liable for "actively induc[ing] infringement" under 35 U.S.C. § 271(b). In the decision below, the Federal Circuit held that a defendant may be held liable for inducing infringement when it facilitates the acts that constitute the act of direct infringement (here, importation of a product) and does so with "deliberate indifference to the existence of a patent." Pet. App. 29a (internal quotation marks omitted). Petitioner challenges that holding as inconsistent with this Court's decision in *Metro-Goldwyn-Meyer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), which states that active inducement of infringement requires an "unlawful purpose" and "culpable expression and conduct." *Id.* at 935, 937.

Amici curiae have a substantial interest in the correct resolution of that challenge. *Amici* are a di-

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[1] Pursuant to this Court's Rule 37.3(a), letters of consent from all parties to the filing of this brief have been submitted to the Clerk. Pursuant to this Court's Rule 37.6, *amici* state that this brief was not authored in whole or in part by counsel for any party, and that no person or entity other than amici or their counsel made a monetary contribution intended to fund the preparation or submission of this brief.

verse group of technology, software, communications, and retailing firms. While they own, collectively, tens of thousands of patents, they also frequently are accused of inducing infringement. Sometimes, they are alleged to have induced infringement by distributing a product with a multitude of noninfringing uses that, when combined with another product, allegedly infringes a patent on the larger combination apparatus or system. Other times they are alleged to have induced infringement by selling a product that a purchaser uses to infringe a patent on a method, even though the product *amici* provided also has numerous admittedly noninfringing uses. *See, e.g.*, *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 851 (Fed. Cir. 2010), *cert. granted*, No. 10-290, 2010 WL 3392402 (U.S. Nov. 29, 2010). And still other times they are alleged to have induced infringement by providing a service with noninfringing uses that users also may use to infringe a method patent. *See, e.g.*, Amended Complaint, *TQP Dev., LLC v. Comcast Corp. et al.*, No. 09-279 (E.D. Tex. Oct. 13, 2009).

Liability for inducing infringement historically has been premised on the accused inducer's knowledge that the acts it encouraged would infringe an enforceable patent. *See, e.g.*, *Wallace v. Holmes*, 29 F. Cas. 74, 79-80 (C.C.D. Conn. 1871) (No. 17,100) (first U.S. case recognizing liability for "inducing" infringement of a patent, and doing so on the basis of "express purpose" and "certain knowledge" of infringement). In recent years, however, the Federal Circuit has significantly relaxed that requirement by permitting liability not only when the alleged inducer "knew" that "his actions would induce actual infringement," but also when the alleged inducer "should have known" as much—a standard that sounds in negligence. *DSU Med. Corp. v. JMS Co.*,

471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc) (internal quotation marks omitted). The decision below further shifts the scienter requirement toward strict liability by permitting imposition of liability not only when one is negligent regarding the possibility of *infringement* but also when one exhibits "deliberate indifference to the existence of a *patent*." Pet. App. 29a (emphasis added) (internal quotation marks omitted); *see also id.* at 31a ("Pentalpha deliberately disregarded a known risk that SEB had a protective patent").

This Court promised that the induced infringement doctrine recognized in *Grokster* would "do[] nothing to compromise legitimate commerce or discourage innovation having a lawful promise." 545 U.S. at 937. *Amici* are concerned that, as the scienter standard slips closer to strict liability, the doctrine of induced infringement threatens to do just that.

There are currently more than 1.8 million enforceable U.S. patents. Whenever *amici* introduce a new product or service, or even propose new ways of using older products or services, there inevitably is a background risk that some facet of the new product, service, or method implicates one or more of these 1.8 million patents. If that background risk (perhaps supplemented by an ambiguous communication noting that a patent portfolio is "interesting") were sufficient to establish a "known risk" that a protective patent exists, innovative firms such as *amici* could be exposed to new changes of inducement liability predicated on their supposed indifference to this risk—an assertion that the Federal Circuit suggests that defendants must disprove by "establish[ing] that

[they] actually believed that a patent covering the accused product did not exist." Pet. App. 32a.

Wholly apart from the fact that this standard effectively could shift the burden to the defendant to disprove an element of a patentee's cause of action, *amici* are concerned that the standard announced by the Federal Circuit badly distorts litigants' incentives in patent litigation. It encourages patent owners who are not inclined to compete in the marketplace to conceal their allegations of infringement in the hope that their patents can "submarine" beneath a highly successful product and later surface to demand a outsized damage award, without notifying the alleged inducer or giving the alleged inducer an opportunity to correct its actions. And it also threatens to resurrect the recently-interred practice of requiring the preparation and production of noninfringement opinions for litigation defense. Such a regime self-evidently retards innovation and cannot seriously be maintained as promoting the "Progress of . . . useful Arts." U.S. Const. art. 1, § 8, cl. 8.

In keeping with its common-law origins, inducement liability under 35 U.S.C. § 271(b) should be imposed only upon a showing that the defendant had actual knowledge that the acts it was encouraging infringed a patent. Evidence demonstrating that the defendant was deliberately indifferent to a known risk that a protective patent might exist is not remotely sufficient. Knowledge of *infringement* requires, at an irreducible minimum, evidence that the defendant had knowledge of the asserted scope of the claims of the patent at issue and how those claims related to the particular acts the defendant was encouraging.

ARGUMENT

The language of 35 U.S.C. § 271(b) does not explicitly address the degree of knowledge required to "actively induce[] infringement," but "the case law and legislative history uniformly assert such a requirement." *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988) (citing 4 Donald S. Chisum, *Chisum on Patents* § 17.04[2], [3] (and cases cited therein) ("Chisum")); *see also Metro-Goldwyn-Meyer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 936 (2005) (citing *Water Techs.* with approval). This is because patent infringement sounds in tort. *Schillinger v. United States*, 155 U.S. 163, 169 (1894). And in patent law, as in most areas of tort law, contributory liability, such as liability for active inducement, requires tortious intent—including knowledge that the acts brought about constitute a tort. Congress codified that understanding in enacting Section 271(b), and the Federal Circuit's most recent effort to dilute that well-established requirement should be rejected.

I. INDUCEMENT LIABILITY REQUIRES KNOWLEDGE OF INFRINGEMENT.

In *Grokster*, this Court drew its standard for actively inducing infringement from that applied in a series of patent cases, a standard that this Court recognized is "codified in patent law." 545 U.S. at 936 n.11 (citing 35 U.S.C. § 271(b)). This Court described those cases as creating a regime of "fault-based liability" that "premises liability on purposeful, culpable expression and conduct," and thus requires that the defendant have an "unlawful purpose," and "an affirmative intent that the product be used to infringe." *Grokster*, 545 U.S. at 934-37. The Court emphasized that "the rule on inducement of in-

fringement as developed in the early cases is no different today": For the sale of a product or service with noninfringing uses to be the basis for inducement liability, the alleged inducer must have the "object of promoting its use *to infringe*." *Id.* at 936 (emphasis added).

As *Grokster* makes clear, to be held liable for inducing infringement, the defendant must affirmatively facilitate the acts that constitute the direct infringement; in the Court's words, there must be "[e]vidence of 'active steps . . . taken to encourage direct infringement.'" 545 U.S. at 936 (second alteration in original) (quoting *Oak Indus., Inc. v. Zenith Elecs. Corp.*, 697 F. Supp. 988, 992 (N.D. Ill. 1988)). But what makes the defendant's intent to encourage such acts "culpable," "unlawful," and "patently illegal" is its *knowledge* that the actions induced, once completed, *will constitute an act of infringement*. *Id.* at 937, 940, 941.

Knowledge of infringement was not disputed in *Grokster*; it was incontrovertible in that case that the online service providers knew they were facilitating massive amounts of copyright infringement. *See* 545 U.S. at 920 ("individual recipients of Grokster's and StreamCast's software . . . have prominently employed those networks in sharing copyrighted music and video files without authorization"). These underlying acts of copyright infringement were clear and undeniable.

But in patent cases, direct infringement is rarely so clearly defined. The question of infringement often turns on complex issues of claim construction. And patent claims today are often vague, overbroad, or both—"[b]road, to the point of inherently ambiguous"—such that it can be extraordinarily difficult to

determine the scope of the claimed invention from the patent. *Enzo Biochem, Inc. v. Applera Corp.*, 605 F.3d 1347, 1348 n.2 (Fed. Cir. 2010) (Plager, J., dissenting from denial of rehearing en banc). In part for that reason, liability for inducing infringement of a patent always has required knowledge of infringement.

A. Contributory Infringement, Including Induced Infringement, Historically Required Knowledge Of Infringement.

If *Grokster*'s emphasis on the need for "culpable," "unlawful," and "patently illegal" intent itself were not enough to demonstrate that an alleged inducer must have actual knowledge of infringement, the history of the induced-infringement doctrine and the circumstances surrounding the codification of that doctrine in Section 271(b) in 1952 place the proposition beyond doubt.

It is generally accepted that when Congress enacted Section 271(b) and (c) in 1952, those provisions were intended to "codify[] the basic principles of contributory infringement developed by the courts before 1952." Chisum § 17.04[3]; *see also* S. Rep. No. 82-1979, at 8 (1952) (expressing intention "to codify in statutory form principles of contributory infringement" that "ha[ve] been part of our law for about 80 years") ("Senate Report"); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 348 (1961) ("*Aro I*") (Black, J., concurring) ("Congress wanted to continue in force, but not expand, the judge-made doctrine of contributory infringement under which a person who knowingly aids, encourages or abets the direct infringement of a patent is to be held liable as a contributory infringer"). Among those "basic principles" was the central tenet that de-

fendants could be held liable for contributing to infringement only if they knew that the acts to which they contributed were, in fact, infringing.

From its earliest days, liability for contributory infringement always has been premised on the defendant's "certain knowledge" of infringement. *See Wallace v. Holmes*, 29 F. Cas. 74, 79-80 (C.C.D. Conn. 1871) (No. 17,100) (first U.S. case imposing liability for "inducing" infringement). Not long thereafter, this Court confirmed, in a series of cases that involved tying arrangements, that there could be *no liability* for contributory infringement in the *absence* of such knowledge.

In *Cortelyou v. Charles Eneu Johnson & Co.*, 207 U.S. 196 (1907), the issue was whether a third party who supplies ink to a licensee for use in a patented machine would be liable for infringement on the ground that it "induc[ed] a breach of the license," which thereby rendered the licensee an infringer. *Id.* at 199. The *Cortelyou* Court held that there could be no secondary liability because there was "no sufficient evidence of notice" to the accused inducer that the use of its ink by the purchaser constituted infringement. *Id.* at 200. Although the defendant had supplied ink to be used in violation of the license, liability did not attach because the defendant was not "notified by the plaintiffs of the rights which they claimed, or that anything which it did was considered by them an infringement upon those rights." *Id.* In short, without knowledge of infringement, there could be no liability for inducement.[2]

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[2] Significantly, the *Cortelyou* Court also rejected the suggestion that knowledge of a single employee could be imputed to

[Footnote continued on next page]

A few years later, this Court faced a factually similar case, except that the ink seller did have notice of the license and sold the ink (1) with "knowledge that under the license [the license holder] could not use the ink ... without *infringement*," and (2) with the expectation that the ink would be used in the patented machine. *Henry v. A.B. Dick Co.*, 224 U.S. 1, 49 (1912) (emphasis added), *overruled on other grounds by Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917); *see also Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 33-34 (2006). On those facts the Court found the ink seller liable for what was then known as "contributory infringement" (but would, under modern terminology, be viewed as active inducement). *A.B. Dick*, 224 U.S. at 48. The Court rejected the proposition that secondary liability for infringement could be based solely on the sale of a staple article that could be put to "an infringing use." *Id.* The Court held instead that there must be an "intent and purpose that the article sold will be so used." *Id.*

Shortly thereafter, *A.B. Dick* was overruled in *Motion Picture Patents* on the ground that such tying arrangements constituted patent misuse and rendered the patent unenforceable. 243 U.S. at 518. After *Motion Picture Patents*, the Court enlarged the doctrine of patent misuse to hold patents unenforce-

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[Footnote continued from previous page]
the whole company. The Court held that evidence that the defendant's employee had been shown plaintiff's device with a notice of the license printed on it was insufficient as a matter of law to support secondary liability for infringement, because the employee "was not an officer or general agent of the defendant company." 207 U.S. at 201.

able in a variety of tying situations, effectively preventing patentees from pressing any similar suits for contributory infringement. *See Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27 (1931); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942), *abrogated by Ill. Tool Works*, 547 U.S. 28; *B.B. Chem. Co. v. Ellis*, 314 U.S. 495 (1942). Finally, the Court called the entire doctrine of contributory infringement into question. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 669 (1944) ("The result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider.")

Congress responded some years later by enacting Sections 271(b), (c), and (d) in the 1952 Patent Act. *See generally Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 188-98 (1980) (recounting history of contributory infringement and patent-misuse doctrine). These sections codified what was known as "contributory infringement," while limiting the doctrine of patent misuse. Senate Report at 8. The object of this legislation was to restrict the doctrine of patent misuse, and to thereby restore secondary infringement liability when defendants act with "an intent and purpose that the article sold will be so used" and "with knowledge that" the purchaser's use of the article would infringe. *A.B. Dick*, 4 U.S. at 48-49.

In enacting Section 271(b), Congress plainly did not intend to impose secondary liability on the basis of negligence or strict liability. That conclusion follows directly from Congress's use of the term "actively induces" in Section 271(b).

Prior to 1952, there were just four reported appellate cases that addressed "active inducement" of

patent infringement. And in each of those cases, the allegation of active inducement was predicated on the defendant's actual knowledge of infringement. In the first of those cases, the so-called "Button-Fastener Case," the Sixth Circuit considered a charge that defendants "actively induced" infringement by persuading plaintiff's customers "to infringe . . . with the malicious purpose of causing them to violate their licenses." *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 297 (6th Cir. 1896). The court allowed the charge to stand because "[i]t is the *knowledge* that the [goods] made and sold by defendants are to be used for the purpose of infringing, coupled with the active intent that they shall be so used, which . . . constitutes contributory infringement." *Id.* (emphasis added); *see also Individual Drinking Cup Co. v. Errett*, 297 F. 733, 737, 741 (2d Cir. 1924) (quoting the "actively inducing" language in the Button-Fastener Case and holding liable defendant who "induced" another's infringement after consulting counsel regarding the patent).

The term "active inducement" then fell into desuetude before it was unearthed by Judge Magruder of the First Circuit in *B.B. Chemical Co. v. Ellis*, 117 F.2d 829, 836 (1st Cir. 1941) (Magruder, J., concurring). After the First Circuit held the defendants to be contributory infringers for their efforts to "sell materials for use in an infringing operation with *knowledge* that they will be so used," *id.* at 834 (emphasis added), Judge Magruder characterized the defendants' conduct as "*actively inducing* unlicensed shoe manufacturers to practice the process." *Id.* at 836 (Magruder, J., concurring) (emphasis added); *see also id.* at 835 (majority opinion) ("furnishing of un-

patented articles with the knowledge that they will be utilized in an infringing process").

On certiorari, this Court likewise found that the defendants' acts "amounted to active inducement of infringement." *B.B. Chem.*, 314 U.S. at 497. And there could be no doubt whatsoever that the defendants had actual knowledge that the acts they had induced were acts of infringement: The principal defendant was the *inventor* of the patented invention; he had assigned his patent and then formed a company to compete with the assignee. *See* 117 F.2d at 830.

These cases demonstrate that prior to the enactment of the 1952 Patent Act appellate courts limited their use of the term "active inducement" to circumstances in which defendants had actual knowledge of the infringing character of the acts they were inducing. "When Congress codifies a judicially defined concept, it is presumed, absent an express statement to the contrary, that Congress intended to adopt the interpretation placed on that concept by the courts." *Davis v. Mich. Dep't of Treasury*, 489 U.S. 803, 813 (1989). And this Court confirmed that presumption in *Grokster* when it observed that the "rule on inducement of infringement as developed in the early cases is no different today." 545 U.S. at 936. Against this background, there is no room to debate that the provision enacted by Congress as Section 271(b) requires that the defendant have actual knowledge of infringement of the patent.

B. The General Law Of Civil Aiding-And-Abetting Liability Also Requires Knowledge Of The Violation.

The conclusion that Congress incorporated into Section 271(b) the knowledge requirement reflected

in the pre-1952 decisional law is bolstered by compelling indicators that Congress equated "actively inducing" with civil "aiding and abetting" liability, which itself requires knowledge of the underlying violation.

The Senate Report, in discussing Section 271, states that "[p]aragraph (b) recites in broad terms that one who aids and abets an infringement is likewise an infringer." Senate Report at 8. The report later states "[o]ne who actively induces infringement as by aiding and abetting the same is liable as an infringer." *Id.* at 21. The House Report uses identical language. H.R. Rep. No. 82-1923, at 9, 28 (1952). Thus, the basic understanding of Congress was that "actively inducing infringement" was similar to "aiding and abetting infringement"—and this codified meaning controls today.

Civil aiding-and-abetting liability, as invoked by Congress in enacting Section 271(b), requires actual knowledge of the rights violated. Section 876(b) of the First Restatement of Torts (which is the relevant treatise for purposes of establishing the common-law backdrop to the 1952 Patent Act, *see Field v. Mans*, 516 U.S. 59, 70 (1995)) states that a third party is liable for another's breach of duty "if he . . . *knows* that the other's conduct constitutes a breach of duty and gives substantial assistance or encouragement to the other." RESTATEMENT (FIRST) OF TORTS § 876(b) (1939) (emphasis added). Section 876(a), addressing "[p]ersons acting in concert," likewise suggests liability when one "orders or induces [tortious] conduct, *knowing* of the conditions under which the act is done or *intending the consequences* which ensue." *Id.* § 876(a) (emphases added). Knowledge of the wrong—here, knowledge of infringement—thus was

a prerequisite to civil aiding-and-abetting liability at the time Section 271(b) was enacted.[3]

The extant general common law of aiding and abetting the commission of a tort thus strongly suggests that Congress required actual knowledge of infringement as an element of liability under Section 271(b).[4]

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[3] One who "induces" a third person to breach a contract similarly is subject to liability to the other contracting party only if the inducer had "the purpose to cause the result," *i.e.*, the breaching of the contract. RESTATEMENT (FIRST) OF TORTS § 766 cmt. d (1939). To have that purpose, one "must have knowledge of the business expectancy with which he is interfering." *Id.* at cmt. e.

[4] It is true that the Second Restatement of Torts relaxed the standard somewhat by providing for liability for one who "orders or induces" the tortious conduct of another "if he knows *or should know* of circumstances that would make the conduct tortious if it were his own." RESTATEMENT (SECOND) OF TORTS § 877(a) (1979) (emphasis added). But this modification and the cases on which it relies all post-date the 1952 Patent Act and therefore offer little or no guidance as to the common-law doctrine Congress was codifying in 1952. *See* 2B Norman J. Singer & J.D. Shamble Singer, *Sutherland on Statutory Construction* § 50.2 (7th ed. 2008). In any event, the Second Restatement imposes this liability only for persons "[d]irecting or permitting conduct of another." RESTATEMENT (SECOND) OF TORTS § 877 (capitalization altered). This is akin to the vicarious liability theory that the Court passed over *Grokster* in favor of induced infringement (545 U.S. at 930 n.9), and thus could not be viewed even as an accurate reflection of post-1952 standards governing active inducement.

C. The Close Relationship Of Section 271(b) And Section 271(c) Demonstrates That Knowledge Of Infringement Is Required For Inducement Liability.

Sections 271(b) and (c) "were intended as complementary provisions, together codifying the basic principles of contributory infringement developed by the courts before 1952." Chisum § 17.04[3]. Section 271(b) codified aiding-and-abetting liability, while Section 271(c) reflected the "usual situation in which contributory infringement arises" (Senate Report at 8)—that is, when one sells a product that is "especially made . . . for use in an infringement." 35 U.S.C. § 271(c).

Unlike Section 271(b), Section 271(c) allows imposition of liability even in the absence of direct evidence that the defendant intended its article to be used in an infringing way. Under Section 271(c), the defendant's "intent to infringe" is conclusively "imput[ed]" from the fact that its article "is good for nothing else but infringement." *Grokster*, 545 U.S. at 932 (internal quotation marks omitted). Yet, this Court has been clear that such unlawful intent can be ascribed to the defendant only when the "alleged contributory infringer *knew* that the combination for which his component was especially designed *was both patented and infringing*." *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964) (emphases added). In that situation, there is "no injustice in presuming or imputing an intent to infringe" under Section 271(c). *Grokster*, 545 U.S. at 932. When one sells a product with knowledge that it is "good for nothing else but infringement," the obvious and inevitable consequence of that sale is that

the product will be put to its intended, infringing purpose. *Id.* (internal quotation marks omitted)

But there can be no liability under Section 271(c) for the sale of a product that has substantial noninfringing uses—a "staple article or commodity of commerce." 35 U.S.C. § 271(c). This exclusion was incorporated into Section 271(c) "to deny patentees control over staple goods used in their inventions." *Dawson Chem.*, 448 U.S. at 200-01. Thus, secondary liability in connection with the sale of staple articles of commerce—*e.g.*, a general-purpose microprocessor—can be imposed only under Section 271(b). *See Grokster*, 545 U.S. at 935 n.10.

If Section 271(b) were construed to impose liability in the absence of actual knowledge of infringement it would typically be easier to prove a case under Section 271(b) than under Section 271(c). Strangely, producers of staple articles of commerce would be exposed to greater secondary liability than that which Congress intended to impose on marketers of articles especially made to infringe. In the latter case, to impose liability under Section 271(c), the patentee would need to prove the defendant knew that its product was good for nothing but infringement; but the producer of a product with myriad noninfringing uses could be held liable under Section 271(b) without any similar showing of knowledge of infringement. This differential knowledge requirement would push Section 271(c) into virtual obsolescence as few patentees would bring suit against the producer of an article especially made to infringe under Section 271(c) when they could bring suit under Section 271(b) and dispense with proof of knowledge of infringement.

Such an anomalous result cannot possibly be squared with the prior case law or with Congress's understanding that Section 271(c) addressed the "usual situation" in which secondary liability would arise. Senate Report at 8; *see also Grokster*, 545 U.S. at 932. Nor can it be squared with Congress's evident intent to require a *greater* showing for secondary liability in cases involving staple goods, so as to carve out an area of unfettered commerce and "deny patentees control of staple goods." *Dawson Chem.*, 448 U.S. at 201. Thus, as one of the drafters of the 1952 Act explained, in the course of distinguishing Section 271(b) and Section 271(c), "to make out a case of active inducement under paragraph (b)" based on the sale of a staple article of commerce, "*something more than mere knowledge* of an intended infringing use would have to be shown." P.J. Federico, Commentary on the New Patent Act, 35 U.S.C.A. preceding § 1 at 53 (West 1954) (emphasis added). And this Court echoed that solicitude for preserving competition in the sale of staple goods, stating that liability for active inducement requires "evidence [that] *goes beyond* a product's characteristics or the *knowledge that it may be put to infringing uses*, and shows statements or actions directed to promoting infringement." *Grokster*, 545 U.S. at 935 (emphases added).

The structural relationship between Section 271(b) and Section 271(c) requires that liability under *either* provision be imposed only when the defendant had actual knowledge of infringement, and that liability under Section 271(b)—precisely because it can restrain distribution of staple products with a vast multitude of noninfringing uses—be imposed

only when the defendant *also* took affirmative steps to encourage a use it knew to be infringing.[5]

II. "DELIBERATE INDIFFERENCE" TO A "KNOWN RISK" THAT A PATENT MAY EXIST IS INSUFFICIENT TO DEMONSTRATE THE KNOWLEDGE OF INFRINGEMENT NECESSARY FOR INDUCEMENT LIABILITY.

The court of appeals held that the knowledge requirement for inducement liability could be satisfied with evidence sufficient to demonstrate that the defendant acted with "deliberate indifference" to a "known risk" of a patent. Pet. App. 30a. That holding is incorrect on two independent levels.

First, while knowledge of a *patent* is an indispensable element of knowledge of *infringement*, the two concepts are not the same. Knowledge of a patent's existence is necessary, but not sufficient, to demonstrate knowledge of infringement. Knowledge of in-

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[5] That the accused inducer had knowledge that the use it encouraged was infringing is absolutely essential to the imposition of liability under Section 271(b). Imposing liability solely on the basis of a defendant's encouragement of an act that turns out to be infringing (but was not known to be infringing *ex ante*) essentially converts Section 271(b) into a strict liability statute, much like Section 271(a). While it might make sense to hold persons strictly liable for the products they themselves make, use or sell, and the methods they themselves perform—as under Section 271(a)—a producer of staple articles of commerce cannot be held to account for every conceivable use of that technology in the absence of culpable intent. Congress made that policy judgment in 1952, and it is even more justified today as the capabilities and uses of elemental instruments of technology—microprocessors, operating systems, Internet portals, etc.—continue to grow at exponential rates and in unpredictable ways.

fringement requires, at an irreducible minimum, evidence that the defendant had actual knowledge of the asserted scope of the claims of the patent as they relate to the actions the defendant is accused of inducing.

Second, even if mere knowledge of a possible patent could establish knowledge of infringement—and it cannot—"deliberate indifference" to a "known risk" of a patent is not adequate to establish knowledge of the patent.

A. Knowledge Of Infringement Requires Evidence That The Defendant Had Knowledge Of The Asserted Scope Of The Claims Of The Patent As They Relate To The Induced Acts.

The court of appeals held that "deliberate indifference of a known risk," Pet. App. 30a, of a patent "is a form of actual knowledge," *id.*, of a patent and is therefore sufficient to satisfy what it termed "the knowledge-of-the-patent requirement." *Id.* at 27a-28a. But, as demonstrated *supra*, what must be proven to establish inducement liability is not actual knowledge of the *patent*, but actual knowledge of *infringement*. The court below seemed to recognize this distinction, stating that knowledge of the patent is "necessarily include[d]" in knowledge of infringement. *Id.* at 22a (quoting *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc)). But it erred when it failed to recognize that knowledge of a *patent*, without more, is not sufficient to establish knowledge of *infringement*.

Circumstances that might permit one to argue that a defendant had knowledge of a patent are not remotely sufficient to demonstrate that the defendant knew that some act it had encouraged would in-

fringe that patent. For example, the Federal Circuit has held that evidence that a handful of a corporation's 90,000 employees had received a spam marketing email that listed the relevant patent number is sufficient to demonstrate the defendant's knowledge of the patent. *See i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 851 (Fed. Cir. 2010), *cert. granted*, No. 10-290, 2010 WL 3392402 (U.S. Nov. 29, 2010). And other courts even have permitted a citation to the relevant patent in the file history of any one of defendant's thousands of patents and patent applications to establish the defendant's knowledge of that patent (and presumably every other patent similarly cited). *See Veritas Operating Corp. v. Microsoft Corp.*, 562 F. Supp. 2d 1141, 1277 (W.D. Wash. 2008).

There simply is no reasonable chain of inferences that could allow a jury to infer from the mere fact that the patent-in-suit had been cited in one of the defendant's patent applications that: (1) the document containing the citation was transmitted to the defendant, (2) the defendant read and analyzed the cited patent, (3) the defendant correctly construed all the claim terms, and (4) the defendant developed actual knowledge that one or more of the thousands or millions of actions it was encouraging in the course of its business infringed one or more of the claims of the patent (so construed).

For a factfinder to make a reasonable inference that a defendant had knowledge of infringement there must be evidence *at least* that: the defendant had knowledge of the asserted scope of the claims of the patent at issue and of how those claims relate to particular acts being encouraged by the defendant.

That knowledge of infringement requires knowledge of the asserted scope of the claims of a patent as they read on a particular induced action is inherent in the nature of patent infringement. As this Court has observed, it is the claims of the patent that define the patented invention. *See, e.g.*, *Aro I*, 365 U.S. at 339 ("the claims made in the patent are the sole measure of the grant"); *Gen. Elec. Co. v. Wabash Appliance Corp.*, 304 U.S. 364, 369 (1938) ("[t]he claims 'measure the invention'" (quoting *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 419 (1908))). The Patent Act confirms this understanding. Section 112, paragraph 2, requires that the specification conclude with "one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention." *See also Aro I*, 365 U.S. at 358 (Black, J., concurring) ("[B]usinessmen are certainly entitled to know when they are committing an infringement. It is for that reason that the patent statutes require applicants to define with particularity and claim without ambiguity the subject matter which is regarded to be an invention.").

Under Section 271(a), infringement of a "patented invention" is determined by comparing the product or acts at issue with the claims of the patent. It follows that knowledge of the infringement—a determination that a particular act infringes a particular claim of a patent—requires without exception knowledge of both the asserted scope of the claims of the patent at issue and how those claims relate to actions being encouraged by the defendant. Without knowledge of the asserted scope of the claims as they read on the acts accused of infringing, there can be no knowledge of infringement.

Of course, the requirement that the defendant have knowledge of the infringement may place some burden on patentees to provide notice before they can recover for induced infringement under 35 U.S.C. § 271(b). Typically, patentees will have to present the defendant with some basis for discerning the assertion of infringement—conveying the patentee's assertions regarding the scope of the claims of its patent and how they are infringed by actions encouraged by the defendant.

This notice was present in the early inducement cases; the patentee often stamped a licensing notice on the machine itself and thereby informed all users of the tied machine of the asserted scope of the claims. *A.B. Dick*, 224 U.S. at 25-26; *Cortelyou*, 207 U.S. at 199, 201; *Cortelyou v. Charles Eneu Johnson & Co.*, 138 F. 110, 112 (C.C.S.D.N.Y. 1905) (describing license and patent labels). When that knowledge was transmitted to the alleged inducer through the notice, he could be held liable for contributory infringement. *A.B. Dick*, 224 U.S. at 49 (defendants had "knowledge that under the license from the patentee [the licensee] could not use the ink . . . without infringement"). Without such notice there was no liability. *Cortelyou*, 207 U.S. at 200.

Patent markings perform a similar notice function today by allowing the patentee to present both the existence of the patent and the asserted scope of the claims. A marked product informs the world that the patentee regards the product so marked to be within the scope of the claims of the patent. 35 U.S.C. § 287(a). When a defendant copies a marked product wholesale, it presumably has at least some knowledge of the asserted scope of the claims embodied by the marked product (because the marking sig-

nifies, on pain of substantial false marking penalties (*see* 35 U.S.C. § 292), that *some* aspect of the product is assertedly covered by the patent) and also at least some knowledge that the copied product implicates those claims (because a true copy necessarily would practice the patented invention to the same extent as the marked product).[6]

But most cases alleging induced infringement do not involve accusations of copying, much less the copying of a marked product. Far more often, they involve assertions that technology independently developed by the defendant induces third parties to make an apparatus or perform a method that was earlier patented by the plaintiff. In those cases, the question is the same as the Court confronted in *Cortelyou*—whether the defendant actually knew that the acts it was inducing were acts of infringement. Because the defendant in *Cortelyou* did not know that its product implicated the metes and bounds of the plaintiff's exclusive rights, there could be no liability for induced infringement.

The same result should obtain today: Inducement liability cannot apply unless the defendant has knowledge of the asserted scope of the claims of the patented invention, and of which aspects of the defendant's business—which products or services and which acts induced—are implicated by those claims.

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[6] Copying an unmarked product, in contrast, cannot alone support a finding of knowledge of infringement. To the contrary, an unpatented article "can be copied in every detail by whoever pleases." *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 238 (1964). Therefore, there is nothing culpable or morally wrong with copying a product when there is no notice of patent protection.

If this imposes a burden on patentees in many instances, it is not an unfair one. Patentees are generally in the best position to understand and assert the scope of the claims of their patents and to recognize when acts induced by another implicate those claims. Far better, at least, than producers of staple goods facing a thicket of 1.8 million presumptively enforceable patents and a potentially limitless array of uses to which their customers may put their products.

B. "Deliberate Indifference" To A "Known Risk" That A Patent May Exist Is Insufficient To Demonstrate Even Knowledge Of The Patent.

In addition to misapprehending the extent of the knowledge required for liability under Section 271(b), the court below also erred in imputing knowledge of the patent to Pentalpha under a standard of "deliberate indifference of a known risk." Pet. App. 30a. That standard is insufficient even to demonstrate knowledge of the patent, much less the required knowledge of infringement.

It is well established that, in circumstances where imputation of knowledge is permissible, the minimum showing required to permit such imputation is willful blindness. *See United States v. Chavez-Alvarez*, 594 F.3d 1062, 1067 (8th Cir. 2010) ("The concept of willful blindness is a limited exception to the requirement of actual knowledge, and the jury may find willful blindness only if the defendant was aware of facts that put him on notice that criminal activity was probably afoot and deliberately failed to make further inquiries, intending to remain ignorant."). The Federal Circuit recognized as much, and expressed the view that its deliberate-indifference standard was the equivalent of willful

blindness; the court opined that its standard was "not different from actual knowledge, but is a form of actual knowledge." Pet. App. 30a. In reality, however, the Federal Circuit's standard, both as stated and as applied, does not even appear to rise to the level of recklessness.

The Federal Circuit's standard falls well short of actual knowledge and is legally flawed because it requires only "deliberate indifference" of a mere "known risk" of a patent's existence. Pet. App. 30a; *see also id.* at 31a ("Pentalpha deliberately disregarded *a known risk* that SEB had a protective patent") (emphasis added); *id.* at 33a ("Pentalpha deliberately ignored *the risk* that SEB had a patent that covered its deep fryer") (emphasis added). Willful blindness requires deliberate avoidance of a very *high* risk of harm or liability. *See, e.g., United States v. Santos*, 553 U.S. 507, 521 (2008) (Scalia, J., plurality opinion) ("the Government will be entitled to a willful blindness instruction if the [defendant], *aware of a high probability* [of illegality], deliberately *avoids* learning the truth") (emphases added). As the Second Circuit put it—in a case relied on by the Federal Circuit—the law "does not tolerate a person shutting his eyes to a fact . . . *after* realizing its high probability in order to deny that he acted with the requisite knowledge." *Woodman v. WWOR-TV, Inc.*, 411 F.3d 69, 84 n.14 (2d Cir. 2005); *see also* Pet. App. 30a (citing *Woodman* in support of "the standard of deliberate indifference of a known risk").

As explicated by the Federal Circuit, deliberate indifference to a known risk is likewise a lower standard than recklessness, which requires a "high risk of harm, objectively assessed." *See Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 69 (2007). The court below

relied on *Farmer v. Brennan*, 511 U.S. 825, 840 (1994), in adopting its "deliberate indifference" standard. Pet. App. 29a. But *Farmer* did not hold that deliberate indifference regarding a mere "known risk" constituted recklessness. Instead, *Farmer* defined recklessness as acting in the face of "an *unjustifiably high risk* of harm that is either known or so obvious that it should be known." 511 U.S. at 836 (emphasis added). And *Farmer* set the bar for deliberate indifference even *higher*, requiring that the defendant both "know[] of *and* disregard[] an excessive risk," *i.e.*, the defendant "must both be aware of facts from which the inference could be drawn that a substantial risk of serious harm exists, *and* he must also draw the inference." *Id.* at 837 (emphases added). Deliberate indifference is thus a significantly higher standard of liability than that imposed by the Federal Circuit below.

III. Requiring Actual Knowledge Prevents The Inducement Rule From Trenching On Legitimate Commerce.

In a patent system truly dedicated to the protection of intellectual property and the prevention of its infringement, patentees who become aware of direct infringement that is being facilitated by a third party would promptly inform the third party of the claim of direct infringement—including how the patent claims read on the activity being facilitated. With that information, the accused business would be in a position to cease any promotion of infringing activities and thereby avoid liability for secondary infringement (or if it failed to do so, the patentee could then recover for inducement). But the Federal Circuit's minimalist approach to knowledge does not promote this economically efficient behavior. In-

stead, it encourages patentees to provide only enough information to trigger a "known risk" that a patent exists to start the clock on induced infringement damages, while withholding more detailed allegations of infringement that might permit their recipient to take remedial steps. This is because many patentees—especially those who do not practice their claimed inventions—ironically want infringement to *continue* as long as possible so that so-called "reasonable royalty" damages may continue to accumulate.

This is not a particularly difficult scheme to perpetrate. There are over 1.8 million U.S. patents in force. *See* World Intellectual Property Organization, Statistics on Patents, Patents in Force by Patent Office (2004-2008), *available at* http://www.wipo.int/ipstats/en/statistics/patents/. Given that today's high-technology products may have thousands of functions, it could be argued that the modern patent thicket itself establishes a background "known risk" that there may be a patent that could be alleged to cover at least one feature or use of such a product. If that background risk were amplified by a letter from a patentee stating that "my patent portfolio might be of interest to you," that patentee then could argue that, under the Federal Circuit's standard, the recipient's failure to identify instances of infringement constituted "deliberate indifference" to the "known risk" of a patent. It is hard to imagine how such a result colorably could be said to promote the "Progress of . . . useful Arts." U.S. Const. art. 1, § 8, cl. 8.

Relatedly, the Federal Circuit's apparent instruction to one cognizant of any "risk" of a patent to "establish[] that he actually believed that a patent covering the accused product did not exist," Pet. App.

32a, threatens to set newly askew a doctrine that the en banc Federal Circuit righted (in part) just three years ago in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc), *cert. denied*, 552 U.S. 1230 (2008).

For many years, the Federal Circuit enforced a so-called "duty of care" affirmatively obligating all economic actors to investigate the existence and scope of patents, lest they be charged with willful infringement and exposed to treble damages under Section 284 of the Patent Act. *See Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983). *Underwater Devices* and its progeny created a need for the preparation and production of noninfringement opinions for litigation defense as alleged infringers sought to avoid treble damages under a willfulness standard that amounted to nothing more than negligence. *Seagate*, 497 F.3d at 1371.

While beneficial for the patent bar, this process proved an expensive drag on innovation. Opinions were routinely produced in litigation to establish a non-willful state of mind, creating an expectation that privilege would be waived for these "opinions." Ultimately, this undermined the disclosure function of patents, as companies discouraged their employees from reading patents lest they be exposed to charges of willfulness.

Seagate abandoned the affirmative duty of care and the corresponding obligation to obtain opinions of counsel as a shield against willfulness liability. 497 F.3d at 1371. In addition, the court raised the standard for enhanced-damages liability for willful infringement from negligence to recklessness. *Id.* *Seagate* thus has mitigated—though not elimi-

nated—the problems in this area of patent law. James E. Hopenfeld, *A Proposal for a "Good-Faith Offer" Standard for Evaluating Allegations of Willful Infringement—with Thanks to Major League Baseball*, 20 Fed. Cir. B.J. 5, 20 (2010).

The "known risk" standard adopted by the Federal Circuit in this case, however, threatens to reinvigorate—in more virulent form—the opinion-writing practice seemingly eliminated in *Seagate*. Under that standard, once a patentee establishes a "known risk" of a protective patent—perhaps with a spam email (*see i4i*, 598 F.3d at 851) or by unearthing a citation in a prosecution file (*see Veritas*, 562 F. Supp. 2d at 1277)—the patentee could argue that the burden shifts to the defendant to "establish[] that he actually believed that a patent covering the accused product did not exist." Pet. App. 32a. The opinion-writing practice revived to meet that burden would be an even greater economic drain than its predecessor because inducement liability suggests the production of clearance opinions not just on what one makes, uses, or sells, but also on every downstream customer's potential use or combination of those products and services.

The burden of mitigating every "known risk" of induced infringement, as formulated by the Federal Circuit below, is potentially orders of magnitude greater than that imposed by the Federal Circuit's roundly and justly criticized pre-*Seagate* cases on willful infringement. Few innovators possibly could scrutinize *all* potential uses of *all* existing company products and compare them with every conceivably relevant patent without draining resources from actual innovation. As recast by the Federal Circuit, the induced infringement doctrine thus promises to

exactly that which this Court assured it would not: "compromise legitimate commerce" and "discourage innovation." *Grokster*, 545 U.S. at 937.

On the other hand, returning the doctrine to its common-law roots and enforcing a requirement of actual knowledge of infringement would not unfairly constrain the legitimate enforcement rights of patentees. In every case of induced infringement, a patentee has available to it the option of seeking relief against the direct infringer under a standard of strict liability. And patentees generally are in the best position to know and assert the scope of the claims of their own patents. This is not just because patent claims often reflect a convoluted combination of legal and technical jargon, *see Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 389 (1996), but also because they often are drafted in a purposefully vague manner, precisely because vague claims can aid the patentee in litigation. Christopher A. Cotropia, *The Folly of Early Filing in Patent Law*, 61 Hastings L.J. 65, 117 (2009); *see also Enzo Biochem*, 605 F.3d at 1348 n.2 (Plager, J., dissenting from denial of rehearing en banc) (an ability to draft claims that are "[b]road, to the point of inherently ambiguous" is "a prized talent"). And the uncertainty is redoubled after trial, as the court of appeals—exercising *de novo* review under *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1451 (Fed. Cir. 1998) (en banc)—changes the construction of claim terms in nearly half of the cases involving issues of claim construction. *See* Michael Saunders, *A Survey of Post-Phillips Claim Construction Cases*, 22 Berkeley Tech. L.J. 215, 232-34 (2007) (summarizing empirical studies and concluding that the Federal Circuit changes the construction of at least one term in roughly 40% of claim construction cases).

There is no reason why defendants should bear the full weight of that uncertainty.

CONCLUSION

The judgment of the Federal Circuit should be reversed.

Respectfully submitted.

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AMICUS CURIAE BRIEF

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No. 10-6

IN THE

Supreme Court of the United States

GLOBAL-TECH APPLIANCES INC. and
PENTALPHA ENTERPRISES, LTD.,

Petitioners,

v.

SEB S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICUS CURIAE* OF THE FEDERAL CIRCUIT BAR ASSOCIATION IN SUPPORT OF NEITHER PARTY

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QUESTION PRESENTED

Whether the legal standard for the state of mind element of a claim for actively inducing infringement under 35 U.S.C. § 271(b) is "deliberate indifference of a known risk" that an infringement may occur, as the Court of Appeals for the Federal Circuit held, or "purposeful, culpable expression and conduct" to encourage an infringement, as this Court taught in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937, 125 S. Ct. 2764, 2780, 162 L. Ed. 2d 781, 801 (2005)?

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I. STATEMENT OF INTEREST OF *AMICUS CURIAE*

The Federal Circuit Bar Association ("FCBA") is a national bar association with over 2600 members from across the country, all of whom practice before or have an interest in the decisions of the United States Court of Appeals for the Federal Circuit. The FCBA offers a forum for common concerns and dialogue between the bar and the Federal Circuit judges. One of the FCBA's objectives is to offer assistance and advice to courts, including through *amicus curiae* briefs, on issues affecting practice before the Federal Circuit and lower tribunals.[1]

A great many FCBA members practice in patent law which falls within the Federal Circuit's exclusive appellate jurisdiction. The FCBA and its members therefore have a particular interest in this case.[2]

The FCBA has no interest in any party to this litigation nor any stake in the outcome of this case.

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[1] Pursuant to Supreme Court Rule 37.6, FCBA represents that no counsel for a party authored this brief in whole or in part. No person or entity, other than the *amicus curiae*, its members, or its counsel, made any monetary contribution intended to fund the preparation or submission of this brief.

[2] The FCBA is composed of private, government, academic, and other members of the bar with an interest in the United States Court of Appeals for the Federal Circuit. The government members of the Association did not participate in the preparation of this *amicus* brief.

The FCBA's sole interest is in seeking a correct interpretation of the patent laws.

In accordance with Supreme Court Rule 37.3(a), the FCBA has conferred with counsel of record for the parties regarding the filing of this brief *amicus curiae*. Pursuant to consents to the filing of *amicus curiae* briefs in support of either party or of neither party filed by Petitioners and Respondent, both parties have consented to the filing of this brief. *See* D.I. 7 (Nov. 10, 2010); D.I. 8 (Nov. 15, 2010).

II. SUMMARY OF ARGUMENT

Section 271(b) of Title 35 of the United States Code provides that "[w]hoever actively induces infringement of a patent shall be liable as an infringer." Active inducement of infringement emerged in the common law and was codified in the Patent Act of 1952 as 35 U.S.C. § 271(b). Although the statute itself does not explicitly recite a state of mind requirement, the legislative history reveals that § 271(b) incorporates a knowing and intentional mental state. "Paragraph (b) [of section 271] recites in broad terms that one who aids and abets an infringement is likewise an infringer." S. Rep. N. 82-1979, at 8 (1952). Consistent with the legislative history, the Federal Circuit has recognized that "[s]tatutory liability for inducement of infringement derives from the common law, wherein acts that the actor knows will lead to the commission of a wrong by another, place shared liability for the wrong on the

actor." *Nat'l Presto Indus., Inc. v. W. Bend Co.*, 76 F.3d 1185 (Fed. Cir. 1996).

Despite the abundance of case law concerning active inducement of infringement, the legal standard for the state of mind required for such claim has vexed litigants and tribunals for decades. *See generally DSU Med. Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1304-06 (Fed. Cir. 2006) (en banc in pertinent part) (comparing the *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464 (Fed. Cir. 1990) line of cases—hinging culpability on specific intent to cause the acts that infringed without an intent to encourage a legal wrong—with the *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544 (Fed. Cir. 1990) line of cases—requiring knowledge of the acts giving rise to infringement and of the infringement itself)).

Against this backdrop, FCBA respectfully requests that this Court recognize that the legal standard for the state of mind element of a claim for actively inducing infringement under § 271(b) is "purposeful, culpable expression and conduct" to encourage an infringement. This standard is consistent with this Court's decision in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005). In *Grokster*, a copyright case, this Court considered "under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product." *Id.* at 918-19. Recognizing that copyright law—unlike patent law—

does not include a cause of action for inducement of infringement, and referencing the fact that it had used patent law as a model for copyright law in the past, this Court determined:

> [T]he inducement rule . . . is a sensible one for copyright. We adopt it here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.

Id. at 936-37 (referencing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), wherein the Court looked to the patent law for guidance in copyright law).

Importantly, for the purpose of responding to the question presented herein, *Grokster* made clear that

> mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. *The inducement rule, instead, premises liability on purposeful,*

> *culpable expression and conduct*, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.

Id. at 937 (emphasis added). The Federal Circuit, en banc in pertinent part, affirmed the *Grokster* rule. *DSU*, 471 F.3d at 1306. The court in *DSU*, considering the divergent standards for the intent element of active inducement of infringement under § 271(b), pronounced that this Court's "purposeful, culpable expression and conduct" standard applied to the patent context. 471 F.3d at 1306.

Accordingly, to resolve the question presented, this Court need look no further than its own precedent—as approvingly applied to patent law by the Federal Circuit en banc—and determine that the legal standard for the state of mind element of a claim for actively inducing infringement under § 271(b) is "purposeful, culpable expression and conduct" to encourage an infringement, as this Court taught in *Grokster*, 545 U.S. at 937.

In addition to recognizing the "purposeful, culpable expression and conduct" to encourage an infringement standard for § 271(b), FCBA also urges the Court to clarify the boundaries of the state of mind element. Accordingly, FCBA provides guidance for this Court to establish a practical standard by which one could determine when an alleged inducer's state of mind rises to the level of culpability. To this end, the Federal Circuit's analysis in *DSU* is

instructive. There, the court articulated a two part analysis for the intent requirement. First, *DSU* observed that the "requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent." 471 F.3d at 1304. Second, "the inducer must have an affirmative intent to cause direct infringement," requiring "that the alleged infringer knowingly induced infringement and possessed specific intent to encourage another's infringement." *Id.* at 1306 (citations omitted).

In short, culpable intent for liability for active inducement of infringement under § 271(b) requires that the alleged inducer have: (1) knowledge of the patent; and (2) knowledge that the induced activity may be an infringement. *Id.* at 1304, 1306; *see also Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 699 (Fed. Cir. 2008). Such theory of liability comports with the legislative history of § 271(b) and the "purposeful, culpable expression and conduct" to encourage an infringement standard. Further, the scope of these requirements finds its roots in Federal Circuit precedent. *E.g., Insituform Techs., Inc. v. Cat Contracting, Inc.*, 161 F.3d 688 (Fed. Cir. 1998) (concerning actual and constructive knowledge of a patent); *In re Seagate*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (articulating a standard for willful infringement, including both objective and subjective inquiries).

By articulating a standard that is both workable, and grounded in precedent, FCBA believes that the Court's ruling here will result in a rule that can be applied uniformly by lower courts. Moreover, the standard FCBA advocates herein strikes an appropriate balance between providing patentees an avenue for suit—particularly where only the end consumer is directly infringing—and providing a level of certainty for actors to secure rights and limit liabilities.

III. ARGUMENT

A. *Grokster* Controls the Intent Requirement for Active Inducement of Infringement Under 35 U.S.C. § 271(b)

This Court need look no further than its own precedent to answer the question presented. In *Grokster*, this Court addressed the state of mind element for active inducement of infringement under 35 U.S.C. § 271(b) and the decision here should be consistent. Although *Grokster* was a copyright case, the Court imported the inducement of infringement cause of action from the patent law. *Id.* at 936 (citations omitted). Interpreting the patent law, this Court stated that active inducement requires "an affirmative intent that the product be used to infringe . . . ." *Id.* (citing, *inter alia*, *Water Techs. Corp. v. Calco Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988)).

> [O]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression of other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties . . . . [M]ere knowledge of infringing potential or actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution . . . . *The inducement rule instead, premises liability on purposeful, culpable expression and conduct.*

Id. at 936-37 (emphasis added).

Accordingly, consistent with the intent requirement for active inducement of infringement in *Grokster*, the legal standard for the state of mind element of a claim for actively inducing infringement under § 271(b) is "purposeful, culpable expression and conduct" to encourage an infringement. *Id.*

B. The Federal Circuit, en banc, Endorsed the *Grokster* Standard, Applying It to Patent Law

Addressing the intent requirement for active inducement of infringement under § 271(b) en banc, the Federal Circuit cited and applied *Grokster* with approval. With reference to its own precedent, the court stated: "*Grokster* thus validates this court's

articulation of the state of mind requirement for inducement." *DSU*, 471 F.3d at 1306 (citing *Manville*, 917 F.2d at 544).

In *DSU*, the Federal Circuit considered a jury instruction on active inducement that provided, in pertinent part: "The defendant must have intended to cause the acts that constitute the direct infringement and must have known or should have known than [sic] its action would cause the direct infringement." 471 F.3d at 1305 (citation omitted). Directly confronting the conflict as to the state of mind element for active inducement of infringement, the court upheld the jury instruction and, in doing so, injected certainty into the jurisprudence. *Id.* at 1304. The court explained:

> This section [of the opinion] clarifies that intent requirement by holding en banc that, as was stated in *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 554 (Fed. Cir. 1990), "[t]he plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements." The requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.

Id. (citing *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1364 n.4 (Fed. Cir. 2006)). And it reasoned: "[I]nducement requires evidence of culpable conduct, directed to encouraging another's infringement, not merely that the inducer had knowledge of the direct infringer's activities." *DSU*, 471 F.3d at 1306 (citing *Grokster*, 545 U.S. at 937; *Manville*, 917 F.3d at 553).

Importantly, the *DSU* court also articulated an analytical framework for the intent requirement. The court observed that "[t]o establish liability under section 271(b), a patent holder must prove that once the defendants knew of the patent, they 'actively and *knowingly* aid[ed] and abet[ted] another's direct infringement.'" *Id.* at 1305 (citing *Water Techs.*, 850 F.2d at 668). Consistent with this, the court cited *Manville* and recognized that the "'alleged infringer must be shown . . . to have knowingly induced infringement,' 917 F.2d at 553, not merely knowingly induced the acts that constitute direct infringement." *Id.* at 1306. Continuing, the court explained the "knowing" requirement:

> It must be established that the defendant possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement. The plaintiff has the burden of showing that the *alleged infringer's actions induced infringing acts and that he knew or should have*

> *known his actions would induce actual infringements.*

Id. at 1306 (citing *Manville*, 917 F.2d at 553) (emphasis added). And the court also observed that "[t]he requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent." *Id.* at 1304.

Accordingly, *DSU* affirmed the two-part test for the state of mind for inducement that it had articulated in *Manville*, requiring the alleged inducer to have: (1) knowledge of the patent, and (2) "affirmative intent to cause direct infringement," requiring "that the alleged infringer knowingly induced infringement and possessed specific intent to encourage another's infringement." *Id.* at 1304, 1306 (citations omitted); *see also Broadcom*, 543 F.3d at 699 (discussing the two-part test).

C. The Intent Requirement for Active Inducement Requires Actual or Constructive Knowledge of the Patent

As a threshold showing, the state of mind element for active inducement requires that the alleged infringer have knowledge of the patent. *DSU*, 471 F.3d at 1304; *see Manville*, 917 F.2d at 553-54 (reversing a finding of infringement because the alleged inducers were not aware of the patent until after the suit was filed and the infringing acts continued upon the alleged inducers' "good faith

belief," upon advice of counsel, that the product did not infringe). As the concurring opinion in *DSU* makes clear, the court did "not set forth a new standard here as to what satisfies the 'knowledge of the patent' requirement." 471 F.3d at 1311 (Michel, C.J. and Mayer, J., concurring). Citing *Insituform*, 161 F.3d at 695, the concurrence noted parenthetically that § 271(b) allows analysis of liability under both actual and constructive knowledge standards. *DSU*, 471 F.3d at 1311 (Michel, C.J. and Mayer, J., concurring).

Here, the Federal Circuit in *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360, 1378 (Fed. Cir. 2010) observed as much. It correctly deemed that knowledge of the patent may attach constructively. *Id.* ("For instance, a patentee may perhaps only need to show, as *Insituform* suggests, constructive knowledge with persuasive evidence of disregard for clear patent markings, similar to the constructive notice requirement in § 278(a)."). But the Federal Circuit's "deliberate indifference" standard in *SEB* fails for its incorrect rationale. *See id.* at 1377-78. Traditionally, willful blindness requires conscious, intentional avoidance of a very high risk of harm or liability. *See, e.g., U.S. v. Santos*, 553 U.S. 507, 521 (2008) (explaining that in the criminal context, "willful blindness" asks whether the defendant, "aware of a high probability [of illegality] . . . , deliberately avoids learning the truth"); *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 69 (2007) ("Thus, a company subject to FCRA [Fair Credit Reporting Act] does not act in reckless

disregard of it unless the action is not only a violation under a reasonable reading of the statute's terms, but shows that the company ran a risk of violating the law substantially greater than the risk associated with a reading that was merely careless."); *Farmer v. Brennan*, 511 U.S. 825, 837 (1994) (rejecting an objective test for deliberate indifference and recognizing instead that deliberate indifference requires that the defendant "knows of and disregards an excessive risk . . . ; [defendant] must both be aware of facts from which the inference could be drawn that a substantial risk of serious harm exists, and he must also draw the inference"); *Woodman v. WWOR-TV, Inc.*, 411 F.3d 69, 84 n.14 (2d Cir. 2005) ("[I]t [the law] does not tolerate a person shutting his eyes to a fact . . . *after* realizing its high probability in order to deny that he acted with the requisite knowledge and intent . . . ." (citations omitted)). By contrast, *SEB* required less—merely "deliberate indifference of a known risk . . . ." 594 F.3d at 1377; *see also id.* at 1378 ("Here, the record establishes sufficient support for the conclusion that Pentalpha deliberately ignored the risk that SEB had a patent that covered its deep fryer."). Such standard is lower than that required for recklessness and is therefore incorrect.

The Federal Circuit in both *DSU* and *SEB* declined to set the boundaries for constructive knowledge. *DSU*, 471 F.3d at 1311 (Michel, C.J. and Mayer J., concurring); *SEB*, 594 F.3d at 1378. But given that under *DSU* the state of mind for § 271(b) requires knowledge of the patent—actual or constructive—FCBA urges this Court to set forth the

requirements for constructive knowledge consistent with the traditional formulation of willful blindness. Hence, FCBA respectfully requests this Court to recognize that constructive knowledge of a patent, sufficient to meet the knowledge of the patent requirement for the state of mind element under § 271(b), requires subjective knowledge and recklessness.

D. The Intent Requirement for Active Inducement Requires Knowledge that the Induced Activity May Be an Infringement

The state of mind element for active inducement of infringement also requires that the alleged infringer have knowledge that the induced activity may be an infringement. *DSU*, 471 F.3d at 1306. The Federal Circuit recognized:

> *Grokster* has clarified that the intent requirement for inducement requires more than just intent to cause the acts that produce direct infringement. Beyond that threshold knowledge, the inducer must have an affirmative intent to cause direct infringement. In the words of a recent decision, inducement requires "'that the alleged infringer knowingly induced infringement and possessed specific intent to encourage another's infringement.'"

Id. (citation omitted).

Requiring the alleged inducer to have knowledge that the induced activity may be an infringement is consistent with the legislative history of the 1952 Patent Act, which codified active inducement from the common law as 35 U.S.C. § 271(b). *See* S. Rep. No. 82-1979, at 8 (1952). The Senate Report makes clear that § 271(b) incorporates a knowing and intentional mental state. "Paragraph (b) [of § 271] recites in broad terms that one who aids and abets an infringement is likewise an infringer." *Id.* And § 271(b) is analogous to the Restatement (Second) on Torts § 877(a) (1979), which provides:

> For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he . . . orders or induces the conduct, if he knows or should know of circumstances that would make the conduct tortious if it were his own . . . .

See generally Charles W. Adams, *Indirect Infringement from a Tort Law Perspective*, 42 U. Rich. L. Rev. 635, 656-62 (2008). Therefore, knowledge that the conduct of another is tortious is a prerequisite to liability for aiding and abetting torts, and the same analytical framework should apply to active inducement. *Id.* at 661 ("[T]he mental state required for inducing infringement under 35 U.S.C. § 271(b) is a specific intent by the defendant to induce the direct infringer's acts that constitute

infringement and in addition, that the defendant knew or should have known the direct infringer's acts would be infringing. These requirements are substantially the same as those found in Restatement (Second) of Torts section 877(a) for tort liability for inducing another's tortious conduct that results in harm to a third person."). This underscores the requirement that the alleged inducer have knowledge that the induced activity may be an infringement.

As with the knowledge of the patent element described above, FCBA urges this Court to set forth a practical standard for knowledge that the induced activity may be an infringement. The Court's guidance here would be particularly helpful since direct evidence of such knowledge may not be available in some cases. But, as the court in *DSU* explained:

> In *Water Technologies*, also cited with approval by the Supreme Court [in *Grokster*], 125 S. Ct. at 2779, this court clarified: "While proof of intent is necessary, direct evidence is not required; rather, circumstantial evidence may suffice." 850 F.2d at 668.

471 F.3d at 1306. Considering the complexities of the law of infringement that might give rise to claims of noninfringement (e.g., claim construction, doctrine of equivalents)—whether colorable or not—allowing an alleged inducer to escape liability, a prudent approach to this requirement would be an objective inquiry.

For this, FCBA urges this Court to turn to relevant authority from the Federal Circuit for guidance. While it is a distinct claim, the Federal Circuit's requirement for proof of willful infringement is instructive, as the first part of this test is objective in nature and does not inquire into the state of mind of the accused infringer.

In *In re Seagate*, the Federal Circuit held: "[T]o establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." 497 F.3d 1360, 1371 (Fed. Cir. 2007) (citations omitted). This standard for objective recklessness appealingly avoids analysis of the subjective mental impression of the alleged inducer.[3] *Id.* ("The state of mind of the accused infringer is not relevant to this

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[3] Analysis of willful infringement under *Seagate* also requires—if the patentee satisfies the threshold objective standard—that the patentee "demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer." 497 F.3d at 1371. FCBA does not advocate the importation of this subjective inquiry here for active inducement of infringement since, among other things, willful infringement and active inducement are separate claims with separate mental states. *Cf. Broadcom*, 543 F.3d at 699 ("Despite Qualcomm's assertion that the intent standard for inducement is higher than that for willful infringement, a lack of culpability for willful infringement does not compel a finding of non-infringement under an inducement theory. Qualcomm's argument reflects a misunderstanding of our holding in *DSU*.").

objective inquiry."). Moreover, it is consistent with the common law notion of active inducement. *See Cortelyou v. Johnson*, 207 U.S. 196, 199-200 (1907) (affirming a finding of no liability for "inducing a breach of the license contracts" where "it does not appear . . . that it [defendant] was ever notified by the plaintiffs of the rights which they claimed, or that anything which it did was considered by them an infringement upon those rights").

Adopting the objective standard from *Seagate* for this second prong of the state of mind element of a claim under § 271(b) will also promote certainty. Importing a standard with a developed body of jurisprudence will allow litigants to rely on precedent. It will also incentivize patent holders to provide notice of the perceived scope of the claims of their patents to inducers.

Accordingly, FCBA urges this Court to set forth an analytical framework for the requirement that the alleged inducer have knowledge that the induced activity may be an infringement. Consistent with the objective part of the Federal Circuit's standard for willful infringement under *Seagate*, FCBA respectfully requests this Court to recognize that to prove that the alleged inducer had knowledge that the induced activity may be an infringement requires the patentee to "show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." 497 F.3d at 1371 (citations omitted).

E. The Two-Part Analytical Framework for Intent Strikes an Appropriate Balance

FCBA urges the Court to not only articulate a legal standard for the state of mind element for a claim of actively inducing infringement under § 271(b), but also to provide an analytical framework to determine culpable conduct therein. The two-part test articulated here recognizes the need for a workable test. Moreover, it pays heed to precedent of this Court and the Federal Circuit. Grounding this analysis in Supreme Court and Federal Circuit jurisprudence preserves useful precedent. Moreover, it will provide litigants and actors with guidance as to the metes and bounds of the intent requirement for § 271(b). Such a rule will best serve litigants and actors by providing them with certainty, and allowing them to rely upon relevant precedential authority to fix their expectations.

CONCLUSION

FCBA respectfully request that this Court reverse the Federal Circuit's decision, reject that court's "deliberate indifference of a known risk" that an infringement may occur test, and recognize that the legal standard for the state of mind element of a claim for actively inducing infringement under 35 U.S.C. § 271(b) is "purposeful, culpable expression and conduct" to encourage an infringement, as this Court taught in *Grokster*, 545 U.S. at 937.

Respectfully Submitted,

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AMICUS CURIAE BRIEF

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IN THE

Supreme Court of the United States

GLOBAL-TECH APPLIANCES INC. and
PENTALPHA ENTERPRISES, LTD.,

Petitioners,

v.

SEB S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF *AMICI CURIAE* OF 41 LAW, ECONOMICS, AND BUSINESS PROFESSORS IN SUPPORT OF PETITIONER

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STATEMENT OF INTEREST OF THE *AMICI CURIAE*

Amici are professors who specialize in intellectual property law at law, economics, and business schools throughout the United States, including several who have previously published on the law of inducement. Amici have no personal stake in the outcome of this case,[1] but have an interest in seeing that the patent laws develop in a way that promotes rather than retards innovation. A complete list of amici is included in Appendix A.

ARGUMENT

I. THE FEDERAL CIRCUIT'S "DELIBERATE INDIFFERENCE" STANDARD IS INCONSISTENT WITH THE STATUTE, THIS COURT'S PRECEDENT, AND THE PURPOSES UNDERLYING INFRINGEMENT BY ACTIVE INDUCEMENT

The Federal Circuit's identification of the culpable state of mind necessary to prove induced infringement under 35 U.S.C. § 271(b) of the 1952 Patent Act as "deliberate indifference of a known risk" in *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360 (Fed. Cir.

1. No counsel for a party authored this brief in whole or in part and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No one other than the amici curiae, or their counsel, made a monetary contribution intended to fund such preparation or submission. The parties have filed blanket consents with the Court consenting to the filing of all amicus briefs.

2010), is not only inconsistent with the statute and this Court's precedent, but is in conflict with the purposes underlying creation of liability for infringement for active inducement. The deliberate indifference standard departs from this Court's teachings in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), and *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964), and is counter to the statutory structure, history, and purpose of section 271.

The Court should reject the Federal Circuit's "deliberate indifference of a known risk" standard in favor of a requirement that the inducer have both: (1) actual knowledge of a patent and (2) an intent to induce infringement of that patent. This reading of section 271(b) is consistent with court precedent, the language of the statute, and good public policy.

A. The Federal Circuit's Standard Would Render Contributory Infringement under § 271(c) Superfluous.

Patent law holds liable not only those who infringe a patent, but also those who assist others in doing so. A party can assist in an act of infringement either by directing another to infringe (induced infringement), or by supplying parts or services that are specially suited to infringe (contributory infringement). In either event, the law requires proof of some level of knowledge on the part of the defendant. This requirement derives from the common law origin of indirect infringement in accessory liability, which requires that the defendant know that the behavior she aids is wrongful. S. Rep. No. 82-1979, at 8 (1952); H.R. Rep. No. 82-1923, at 9

(1952); Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. DAVIS L. REV. 225, 236 (2005). The common law did require proof of an intent to induce infringement. *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912); *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464 (Fed. Cir. 1990). Pre-1952 common law did not distinguish induced infringement from contributory infringement; instead, efforts to induce infringement, such as advertising a component for use in a patented combination or teaching a direct infringer how to infringe, were treated as evidence of the requisite intent required to prove contributory infringement. Lemley, *Inducing Patent Infringement*, *supra*, at 227.

Congress codified the common law of indirect infringement liability in the Patent Act of 1952, but separated induced infringement from contributory infringement by codifying the former at 35 U.S.C. § 271(b) and the latter at 35 U.S.C. § 271(c). In enacting section 271(c) as a separate provision, Congress effectively carved out the most common form of indirect infringement: contributing to the infringement of another by providing one or more components of a patented combination. The statute sets out in detail what is required to prove contributory infringement: only one who "offers to sell or sells within the United States or imports into the United States a component of a patented [invention] ... constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer." 35 U.S.C. § 271(c). Notably, contributory infringement does not

expressly require an intent to infringe. Instead, the statute permits a court rationally to presume that the actor had an intent to infringe from the expressly required demonstration that the defendant had knowledge of the patent and of the resulting infringement, coupled with the proven lack of a substantial noninfringing use. Nonetheless, this Court has interpreted that knowledge standard to require awareness of the patent. In *Aro*, this Court made it clear that a contributory infringer under section 271(c) must know that the combination to which it is contributing "was both patented and infringing." *Aro*, 377 U.S. at 488.

Unlike the more specific requirements for liability under section 271(c), the conduct required under section 271(b) is much less well-defined: "[w]hoever actively induces infringement of a patent shall be liable as an infringer." Section 271(b) does not offer the section 271(c) safe-harbor from liability for parties who distribute a staple article of commerce. *Grokster*, 545 U.S. at 935 n.10. The scope of section 271(c) is thus more narrowly defined and more limited than section 271(b). See Lynda J. Oswald, *The Intent Element of "Inducement to Infringe" Under Patent Law: Reflections on Grokster*, 13 MICH. TELECOMM. TECH. L. REV. 225, 229–30 (2006). That broader definition of culpable conduct in inducement is counterbalanced, however, by a stricter requirement of intent to induce infringement.[2] In essence, section 271(c) prescribes the

2. That requirement existed at common law; while Congress did not set it forth expressly in section 271(b), the intent of that statute was to codify the common law, and there is no reason to think that Congress intended to eliminate the preexisting standard of an intent to induce infringement.

circumstances where intent can be presumed; under section 271(b), such intent to encourage infringement must be shown directly.

The structure of sections 271(b) and (c) of the Patent Act indicates that correct interpretation of section 271(b) should differentiate inducement liability under that section from liability for contributory infringement. By proffering a culpable mental state requirement for section 271(b) in *SEB* that does not require actual knowledge, the Federal Circuit blurred the functions of sections 271(b) and 271(c) of the Patent Act. Reducing the intent standard to "deliberate indifference," as the Federal Circuit did in *SEB*, means that section 271(b) effectively swallows section 271(c). Section 271(c) liability requires both knowledge of infringement, which this Court stated in *Aro* required knowledge of the patent, and specific limited conduct that has no substantial noninfringing use. Under *SEB*, neither is required for proof of inducement. If both the intent and conduct requirements of section 271(b) are lower than in section 271(c), there is no case in which an alleged infringer could be liable for contributory infringement without also being liable for induced infringement. Further, cases of alleged infringement that would otherwise fit within section 271(c), but would not result in secondary liability for failing to meet the requirements of that section, now become infringing conduct under section 271(b). *See* Timothy R. Holbrook, *The Intent Element of Induced Infringement*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 399, 407–08 (2006). As a result, *SEB* renders section 271(c) superfluous, nullifying the carefully crafted limitations of Congressional language. "Deliberate indifference" therefore cannot be the right

interpretation of section 271. *See Hibbs v. Winn*, 542 U.S. 88, 101 (2004) ("'A statute should be construed so that effect is given to all its provisions, so that no part will be inoperative or superfluous, void or insignificant . . . .'" (quoting 2A Norman J. Singer, *Statutes and Statutory Construction* § 46.06 (6th ed. 2000)).

B. The "Deliberate Indifference" Standard is Inconsistent with this Court's *Grokster* Decision.

Patent courts before *SEB* have consistently interpreted section 271(b) to require a "specific intent and action to induce infringement." *Warner-Lambert Co. v. Apotex Corp.*, 316 F.3d 1348, 1364 (Fed. Cir. 2003); Oswald, *Reflections on Grokster, supra*, at 229–30.

This Court relied on that requirement in adopting the inducement doctrine from patent law into copyright law in *Grokster*, 545 U.S. at 936. In *Grokster*, this Court drew on section 271(b) of the Patent Act in finding a cause of action for inducement of copyright infringement. In so doing, this Court embraced a higher intent standard than that articulated by the Federal Circuit in *SEB*, stating that "the inducement rule, too, is a sensible one for copyright. *We adopt it here*, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken," is liable for third parties' acts of infringement. *Grokster*, 545 U.S. at 936–37 (emphasis added).[3] This language confirms

3. In importing 271(b) to the copyright law in *Grokster*, this Court noted that: "'[e]vidence of active steps ... taken to encourage direct infringement,' such as advertising an

(Cont'd)

that the mental culpability required for inducement of infringement is higher than mere negligence or recklessness. It would be peculiar if this Court, having drawn the specific intent requirement from patent law into copyright law, then concluded that patent law didn't have any such requirement after all.

The en banc Federal Circuit, in turn, drew on this Court's teachings in *Grokster* in requiring evidence of intent in *DSU Medical Corp. v. JMS Corp.*, 471 F.3d 1293, 1304–06 (Fed. Cir. 2006) (en banc). The Federal Circuit held that the "[t]he plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements," which "necessarily includes the requirement that he or she knew of the patent." *Id.* at 1304. This narrower intent standard is consistent with—indeed, drawn from—this Court's reading of the Patent Act articulated in *Grokster*. To overthrow it in favor of a deliberate indifference standard would render the patent standard inconsistent with the copyright standard, even though the copyright standard was explicitly drawn from the patent one.

(Cont'd)
infringing use ... show[s] an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use." *Grokster*, 545 U.S. at 936 (internal citation omitted).

C. The "Deliberate Indifference" Standard Risks Chilling Pro-Competitive Behavior.

In the fast-paced industries of the current economy, the quantity of patents, the almost glacial process of patent prosecution, and the uncertainties surrounding patent scope and validity frequently make it impractical to conduct a patent search before launching a product. In fact, it has become common practice in many of our most innovative industries to put a product on the market before doing a patent search and to then "wait and see" if a patentee claims infringement. *See* Mark A. Lemley, *Ignoring Patents*, 2008 MICH. ST. L. REV. 19, 22 (2008). In response to a 2003 survey, fifty-three percent of intellectual property managers disagreed with the statement "[w]e always do a patent search before initiating any R&D or product development effort." *Id.* at 22 (citing Iain M. Cockburn & Rebecca Henderson, *Survey Results from the 2003 Intellectual Property Owners Association Survey on Strategic Management of Intellectual Property* F.6 (Oct. 2003)). And the Berkeley Innovation Survey of start-up companies found that in the information technology industries less than a quarter of companies regularly searched for patents. Stuart J.H. Graham et al., *High Technology Entrepreneurs and the Patent System: Results of the 2008 Berkeley Patent Survey*, 25 BERKELEY TECH. L.J. 1255, 1321–22 (2010).

The development of the practice of "wait and see" is not reflective of a conscious disregard of the risk of the existence of conflicting patent claims, but a response to the inherent uncertainties of the patent system and a desire to conduct legitimate commerce in the face of

those uncertainties. Put simply, it is often impossible to tell whether a product infringes a valid patent even after a perfect search. The Patent & Trademark Office (PTO) takes over three and a half years to issue a patent, and a patent application is not published and available for scrutiny for at least eighteen months of that time, sometimes longer. 35 U.S.C. § 122(b). Patent claims can be changed by filing continuation applications for up to twenty years after the original patent is granted. So it is often impossible to know in a timely fashion whether there will even be a patent with claims that cover a particular product.

Even after a patent is issued, tremendous uncertainty remains about its scope and validity. Lemley, *Ignoring Patents, supra*, at 25–26. When challenged in litigation, at least forty-six percent of patents are invalidated. John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q. J. 185, 205 (1998). And even valid patents might or might not be infringed depending on what the patent claims mean, something that turns out to be surprisingly hard to determine. Every patent case involves a dispute over the construction of patent claims, and even once the district court rules that ruling is reversed on appeal almost forty percent of the time. Kimberly A. Moore, *Markman Eight Years Later: Is Claim Construction More Predictable?*, 9 Lewis & Clark L. Rev. 231, 235–36 (2005). The result is that until a case is actually litigated and appealed, neither side can know for sure what the patent even covers. In the colorful words of James Bessen and Michael Meurer: "if you can't tell the boundaries, then it ain't property." James Bessen & Michael Meurer, *Patent Failure: How*

Judges, Lawyers and Bureaucrats Put Innovators at Risk 46 (2008).

Finally, most modern products involve not just one but dozens or even hundreds of different potential legal rights, each of which has the problems of scope, validity, and delay just mentioned. The *SEB* deliberate indifference standard therefore means that companies must search for, (hopefully) find, and assess not one potentially relevant patent, but a bewildering array of patents. Doing so just isn't practical in a fast-changing market. Obliging innovators to defend against allegations of "deliberate indifference of a known risk" would require companies to wait almost indefinitely to release new products because of the enduring risk of discovery of a previously unknown patent or one that turned out to be relevant to their business.

D. A Strict Liability Inducement Regime Would be Disastrous

If permitting a finding of inducement based on something less than actual knowledge would be bad, making inducement a strict liability offense would be far worse. The definition of inducing conduct is so broad that without an intent requirement, virtually anyone in the country could be a patent infringer. To give just a few examples, Microsoft Word, Microsoft Outlook, and the Blackberry smartphone have all been held to infringe patents. A strict liability standard for inducement would hold liable not only the companies that make those products, but computer makers, telephone companies, and Internet service providers that enable their use, and even individuals who have

ever forwarded a Word document to another, sent an Outlook calendar request, or emailed someone who might receive that message on a Blackberry.

This Court has recognized the importance of not allowing patent liability rules to impede "the wheels of commerce." *Henry v. A.B. Dick Co.*, 224 U.S. at 48. *Grokster* itself rested on policy grounds of protecting "legitimate commerce" and the promotion of "innovation having a lawful promise," *Grokster*, 545 U.S. at 937 — policy considerations that apply in the patent law arena as well. *See* Oswald, *Reflections on Grokster, supra*, at 239. Were this Court to ignore a century of common law, the statutory structure of section 271, and its own ruling in *Grokster* by adopting a strict liability regime, everyone would risk infringement every day. Modern business would be possible only at the collective sufferance of thousands of different patent owners. That is not a reasonable interpretation of a statute designed to promote rather than retard innovation.

II. THE APPROPRIATE STANDARD IS THE INTENT TO INDUCE INFRINGEMENT STANDARD ARTICULATED BY THIS COURT AND PRIOR FEDERAL CIRCUIT CASES

In *SEB*, the Federal Circuit derived the "deliberate indifference" standard by reasoning that "inducement requires a showing of 'specific intent to encourage another's infringement'" and equating specific intent with deliberate indifference.[4] *SEB*, 594 F.3d at 1376. The

4. "As other courts have observed, 'specific intent' in the civil context is not so narrow as to allow an accused wrongdoer to actively disregard a known risk that an element of the offense exists." *SEB*, 594 F.3d at 1376 (internal citations omitted).

cases cited by the Federal Court likening specific intent to deliberate indifference should be applied cautiously in the patent law context, however, given the exceptional uncertainty associated with the patent system. In the ordinary civil contexts cited by the Federal Circuit, the "known risks" included in the "deliberate indifference" standard are more narrowly defined than the known risks of violating an existing legal right under patent law as the standard was applied by the Federal Circuit in *SEB*. In *Crawford-El v. Britton*, 951 F.2d 1314, 1318 (D.C. Cir. 1991), for example, the risk (that failure to deliver plaintiff's documents on time would interfere with his litigation) was easily ascertained at the time of the defendant's actions (the box contained legal documents; ongoing litigation has pending deadlines) and was fairly limited in scope, implying the need for something more than knowledge of some undefined risk. In *Boim v. Holy Land Found. for Relief & Dev.*, 549 F.3d 685, 693 (7th Cir. 2008), the court modified the equation of intentional misconduct and deliberate indifference by suggesting that the standard requires that "one knows there is a *substantial* probability that the organization engages in terrorism but one does not care" (emphasis added).

By contrast, the "known risk" in the patent system, as the standard was applied by the Federal Circuit in *SEB*, can be as broad as the risk that a change to a patentee's claim made via continuation application nineteen years after an innovator's product launch will cause the innovator's product to infringe. A standard covering any possible risk that infringement may occur is untenable in light of the uncertainties inherent in patent law about whether a party is violating a legal right.

By maintaining a "deliberate indifference" standard for liability under section 271(b), the patent system would create an undesirable barrier to market entry by increasing the risk of liability for indirect infringement. If refusing to search is "deliberate indifference," as the Federal Circuit suggested in *SEB*, the most innovative companies would face the possibility of liability for induced infringement, with the result that a patent law designed to promote innovation would instead chill it.

The proper standard for inducement should punish bad actors, but must also encourage companies to develop new technologies. If mental-state standards for induced infringement are expanded to cover a large class of activities that were once non-infringing, innovative companies will be discouraged from exploring new areas of research for fear of incurring liability. Empirical research shows that alleged infringers have higher average expenditures on research and development than patentee plaintiffs in infringement suits. *See* Bessen, *Patent Failure*, *supra*, at 123.[5] This, when viewed in conjunction with the finding that in only about four percent of patent litigation cases are defendants found to have intentionally copied a patent, Christopher A. Cotropia & Mark A. Lemley, *Copying in Patent Law*, 87 N.C. L. Rev. 1421, 1424 (2009), suggests that the burden of an overbroad standard will

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5. "By the late 1990s, the risk of patent litigation for public firms outside of the chemical and pharmaceutical industries exceeded the profits derived from patents. This means that patents likely provided a net *dis*incentive for innovation for the firms who fund the lion's share of industrial R&D." *Id.* at 144 (emphasis in original).

fall primarily on inadvertent infringers rather than bad actors. *Id.* at 126. Imposing additional risk for inadvertent infringement on inventive product-producing companies will chill innovation.

The *DSU* standard adopted by the en banc Federal Circuit is the proper one. To be liable for encouraging another to infringe a patent, a defendant must be aware of the existence of the patent, and either actually knows or should know that the acts it encourages will infringe that patent. Those unaware of a patent can have no specific intent to encourage infringement.

Exactly how much evidence of intent must be required may depend on various circumstances. It might, for instance, be permissible to balance the evidence of intent against the nature of the defendant's acts, finding liability with a lesser showing of intent in circumstances where the defendant played a greater role in causing the act of infringement. Lemley, *Inducing Patent Infringement*, *supra*, at 236. Courts may also wish to consider whether a company that is aware it is encouraging infringement of a patent should be able to defend against an inducement claim because it had an objectively reasonable belief that that patent was invalid. But these issues are not before the Court, and can be resolved by the lower courts once the proper standard of intent is restored.

III. AN INTENT STANDARD DOES NOT LEAVE PROPER PLAINTIFFS WITHOUT A REMEDY

This case is a somewhat troubling one for application of the intent standard because the plaintiffs in this case are accused of deliberately copying the plaintiff's product while turning a blind eye to whether that product was patented. But we do not think the unusual facts of this case justify the creation of a general rule that will interfere with innovation.

Requiring knowledge of a patent as a prerequisite for inducing infringement does not leave most plaintiffs without a remedy. In most cases, patentees can pursue the direct infringer. Indeed, it is worth noting that in this case, the very same defendant was found liable for direct infringement as well as inducement. Under 35 U.S.C. § 271(a), a party directly infringes on a patent when it "without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention." Section 271(a) makes direct infringement a strict liability offense—neither proof of knowledge nor intent is required to prove liability. In the context of direct infringement, the intent of an alleged infringer is only considered in the context of the calculations of special damages for "willful infringement." Oswald, *Reflections on Grokster, supra*, at 229. Thus, bringing suit under section 271(a) remains a viable remedy for patentees even if they cannot show that an alleged infringer had the intent to infringe required for liability under section 271(b). And in this case, where the product was imported, the patentee can separately seek an order from the International Trade Commission excluding the infringing products from the United States.

Further, patentees can ensure that defendants who copy products have constructive notice of an existing patent right by marking "substantially all" their products or by directly notifying an alleged infringer. Indeed, section 287(a) requires patentees who seek past damages either to mark all products for sale in the United States with "patent" or "pat." or to provide actual notice of the patent to the infringer. The incorporation of the marking statute into the Patent Act of 1952 "help[s] avoid innocent infringement" by providing potential infringers with actual or constructive notice of the patent. *Nike, Inc. v. Wal-Mart Stores, Inc.*, 138 F.3d 1437, 1443 (Fed. Cir. 1998).

Once a defendant is on notice of the existence of a patent, the law provides both for damages and for injunctive relief against continued acts of infringement. A narrower standard for liability under section 271(b) does not preclude a patentee from equitable remedies after notice is given. *See* Holbrook, *The Intent Element of Induced Infringement, supra,* at 406.

Finally, empirical evidence suggests that only a small percentage of patent cases involve copying of the plaintiff's invention. Of 1,871 published decisions in patent cases examined, two authors found that less than seven percent included even an allegation of copying; even fewer proved that allegation. *See* Cotropia, *Copying in Patent Law, supra,* at 1424. It would be a mistake to sweep the overwhelming majority of independent developers into the net of inducement liability in an effort to capture a very few bad apples.

By restricting liability for inducing infringement to alleged infringers who had knowledge of the patent and intended to encourage infringement, the patent system can punish bad actors while limiting any adverse impact on inadvertent infringers. This maintains a fair balance between the rights of patentees and the risks imposed on innocent infringers while avoiding the creation of a disincentive to explore and develop new technologies.

CONCLUSION

For the foregoing reasons, this Court should reject the "deliberate indifference" standard articulated by the Federal Circuit in *SEB* in favor of a requirement that the defendant be aware of a patent and encourage an act that it knows or should know would infringe that patent.

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AMICUS CURIAE BRIEF

Supreme Court, U.S.
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No. 10-6

In the Supreme Court of the United States

GLOBAL-TECH APPLIANCES INC., *ET AL.*,

Petitioners,

v.

SEB S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF *AMICUS CURIAE* OF GOOGLE INC. IN SUPPORT OF PETITIONERS

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QUESTION PRESENTED

Whether the legal standard for the state of mind element of a claim for actively inducing infringement under 35 U.S.C. § 271(b) is "deliberate indifference" to a known risk that an infringement may occur, as the Court of Appeals for the Federal Circuit held, or "purposeful, culpable expression and conduct" to encourage an infringement, as this Court taught in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005)?

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STATEMENT OF INTEREST OF THE AMICUS[1]

Amicus curiae Google Inc. is a global technology company focused on organizing the world's information and making it universally accessible and useful. Headquartered in Mountain View, California, with offices around the globe, Google operates the world's most popular Internet search engine and offers a wide range of additional products and services including online advertising, commerce, collaboration, social networking, and mobile access. In addition, Google develops and distributes hundreds of computer programs and software applications used daily by millions of Americans and millions more citizens worldwide.

Google's Internet search tools facilitate public access to millions of websites owned by others. Using the Google search engine, anyone can enter key terms to initiate free searches that locate relevant websites, documents, images and media.[2] Court opinions, law

1. The parties have consented to the filing of this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae* or its counsel made a monetary contribution to its preparation or submission.

2. For example, searching "Grokster Supreme Court" yields, in about 0.16 seconds, links to more than 42,500 web pages, including the Court's decision in *MGM Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005) (hereinafter "*Grokster*"); filed briefs; pages posted by the U.S. Copyright Office, educational institutions, and policy advocacy groups; news articles; law review articles; encyclopedia entries; and commentary from business, legal, philosophical, technological, and consumer perspectives. All this information is available for free anywhere the web is accessible.

review articles, briefs, and papers can be found, without charge, using Google Scholar. Google's YouTube site is one of the most popular online video communities, enabling consumers, artists, educators, and businesses to upload, store, and watch video content. Videos created and uploaded by non-professionals receive billions of views each week across the globe.

Any time one of Google's products or services links to or hosts information or advertisements about goods or processes alleged to infringe a patent, or material in which others allegedly own copyrights, Google faces the risk of being sued for secondary liability for infringement.

Google is both owner of patent assets and defender against claims of patent infringement. Google has been sued more than 50 times for patent infringement over the last five years, and the allegations frequently incorporate claims of inducement with respect to any one or more of its millions of advertisers or users. Patent and copyright owners have filed suit against Google products and services including Google Web Search, Google News, Google Video, Google Image Search, Google Book Search, and YouTube, often based on claims of inducement of infringement by linking to or hosting third party content.

To date, Google successfully has defended against such claims. But its success relies on the proper interpretation of the law and predictable standards for inducement. Without clear, well-defined knowledge and intent requirements, merely linking to, hosting, and providing information or software could be argued to

give rise to inducement liability—thereby increasing exponentially Google's liability exposure and crippling its ability to provide powerful tools and services to hundreds of millions of users and advertisers worldwide.[3]

For the reasons set forth below, this Court should reject the Federal Circuit's "deliberate indifference" rule and confirm that, under Section 271(b), inducement liability requires proof of affirmative activity that intentionally induces conduct that the actor knows would infringe a particular patent.

ARGUMENT

Of the three distinct categories of infringement defined in the Patent Act, inducement most threatens legitimate commercial activity. Unlike contributory infringement under 35 U.S.C. Section 271(c), which involves articles that are not staples of commerce and are "'good for nothing else' but infringement,"[4] inducement under Section 271(b) can affect products, components, and services capable of noninfringing as well as infringing uses. In some cases, products subject to inducement liability are inherently neutral; they are physically the same regardless of how they are used. External factors determine whether they are "infringing": the uses to which they are put; and, in the

3. Nor is the risk cabined solely to inducement of patent infringement. Inasmuch as the Court derived its decision in *Grokster* from principles of patent law, copyright plaintiffs inevitably will try to extend the Court's holding here to cases of inducement under copyright law.

4. *Grokster*, 545 U.S. at 932 (citation omitted).

case of inducement, activity specifically designed to encourage infringement. *See, e.g., Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (noninfringing uses of videotape recorder); *AstraZeneca LP v. Apotex, Inc.*, ___ F.3d ___, 2010 WL 4286284, at *14-16 (Fed. Cir. Nov. 1, 2010) (FDA-required label suggesting use of minimum effective dose of generic drug held to induce infringement of once-a-day patented method).

Overly-broad inducement liability standards threaten manufacturers of products that have commercially significant lawful uses, and deny the public access to those lawful uses by removing such products from the market. Courts therefore should exercise caution to avoid chilling production, distribution, and use of products and services for noninfringing purposes. "[T]he law must take equal care to avoid imposing liability on those who participate in the stream of lawful commerce merely because their products can be misused." Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. Davis L. Rev. 225, 228 (2005).

In this case, the Federal Circuit held that, for purposes of intentional inducement, knowledge of a patent could be established by "deliberate indifference" as to whether such a patent existed. As will be shown in sections I and II, the Federal Circuit's novel rule casts aside some 150 years of patent law that require a showing of knowledge of the patent and deliberate actions intended to cause a known infringement. In section III we explain why the Federal Circuit's holding creates infeasible burdens for manufacturers and service providers, ignores commercial reality and

rational industry practices, and, as a matter of policy, should be reversed.

I. The Standards for Active Inducement Require Affirmative Conduct Deliberately Intended to Encourage Infringement of Known Patents.

This Court's decisions, and those of the circuit and district courts before this case, consistently have required proof of two elements for a finding of inducement liability: (A) active conduct that in fact induces infringement,[5] and (B) specific intent. Specific intent, in turn, necessarily requires knowledge of the patent and knowledge and an intention that the induced conduct will infringe it.

A. Inducement Requires Action by the Defendant.

Section 271(b) imposes liability only on those who "actively" induce infringement. "By its terms, § 271(b) requires that liability be found only if the inducement is 'active,' in the sense that to be held as a contributory infringer, one must purposefully cause, urge or encourage another to infringe." *Honeywell, Inc. v. Metz*

5. Contrary to Petitioners' suggestion that inducement may apply "for conduct that does not cause any infringement," Pet'rs' Br. 23, it is axiomatic that a plaintiff claiming inducement must prove underlying direct infringement. "[T]he patentee always has the burden to show direct infringement for each instance of indirect infringement. *Dynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263, 1272 (Fed. Cir. 2004); *Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 774 (Fed. Cir. 1993)." *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1303 (Fed. Cir. 2006).

Apparatewerke, 509 F.2d 1137, 1142 (7th Cir. 1975) (citations omitted). *See Tegal Corp. v. Tokyo Electron Co., Ltd.*, 248 F.3d 1376, 1378-1379 (Fed. Cir. 2001) ("'Actively inducing,' like 'facilitating,' requires an affirmative act of some kind"), *citing Fromberg, Inc. v. Thornhill*, 315 F.2d 407, 411 (5th Cir. 1963) ("Of course inducement has connotations of active steps knowingly taken . . .").

Inducement will not be found in the absence of evidence of intentional action, recognizing that "active inducement of infringement requires the *commission* of an affirmative act." *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1569 (Fed. Cir. 1994) (emphasis in original) (jurisdiction for a claim of inducement cannot be premised on an omission or failure to act). As a result, a failure to act cannot be the basis of claim of inducement against corporate directors. *A. Stucki Co. v. Worthington Indus., Inc.*, 849 F.2d 593, 597 (Fed. Cir. 1988). Similarly, a manufacturer could not be liable where product instructions did not specifically teach the infringing conduct, even though users following the manufacturer's instructions might infringe. *Vita-Mix Corp. v. Basic Holding, Inc.*, 581 F.3d 1317, 1328-29 (Fed. Cir. 2009). *See also Lucent Techs. Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1320 (Fed. Cir. 2009) (supplying software capable of infringing use without instructions teaching that use takes liability outside the realm of Section 271(b)); *Acco Brands, Inc. v. ABA Locks Mfr. Co., Ltd.*, 501 F.3d 1307, 1313 (Fed. Cir. 2007) (no active inducement where defendant's instructions taught a non-infringing use).

B. Specific Intent Requires Knowledge of the Patent and Knowledge that the Induced Conduct Constitutes Infringement.

Once it is established that liability is premised on *active* conduct, the inquiry turns to a defendant's intent to cause infringement. The requirement of specific intent finds its roots in early case law. In the case recognized as the first finding of secondary liability for patent infringement, a supplier was held liable for providing parts "with the intention" that they will be used in an infringing product. *Wallace v. Holmes*, 29 F. Cas. 74 (C.C.D. Conn. 1871). *See also, Rupp & Wittgenfeld Co. v. Elliott*, 131 F. 730, 733 (6th Cir. 1904) ("[T]he intention to assist in infringement must be otherwise shown affirmatively, and cannot be inferred from the mere fact that the articles are in fact used in the patented combination, or may be so used."); *George Haiss Mfg. Co. v. Link Belt Co.*, 2 F. Supp. 728, 733 (E.D. Pa. 1930) ("The intent is a necessary element.").

Congress enacted Section 271 in 1952 in part to codify and clarify the judicial doctrines of inducement and contributory infringement. *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 179 (1980). While proof of intent remains necessary to each, the differences between Section 271(b) and (c) illustrate why specific intent remains a crucial and discrete element of inducement. Section 271(c) infers the requisite intent from a defendant's knowledge that a particular component has no substantial noninfringing uses. Under that scenario, "there is no injustice in presuming or

imputing an intent to infringe."[6] But, "*Sony's* rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product."[7] In contrast, because Section 271(b) applies where a component or product has commercially significant noninfringing uses, the patentee must prove the specific intent to induce infringing, rather than noninfringing, conduct. Thus, whereas Section 271(c) "gives rise to liability without any *further* proof of intent or inducement of joint action with the direct infringer," under Section 271(b) "the evidence must establish active inducement *and that involves intent.*" Judge Giles S. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 21 Geo.Wash. L. Rev. 521, 537, 538-539 (1953) (emphasis added).

Grokster applied this intent standard to the copyright law context. "The inducement rule ... premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise." *Grokster*, 545 U.S. at 937. A plaintiff therefore must show a defendant's acts are undertaken "*with the object* of promoting its use to infringe . . . , as shown by clear expression or other affirmative steps taken to foster infringement . . . ." *Id.*, at 919, 936-37 (emphasis added).

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6. *Grokster*, 545 U.S. at 932; *see Sony*, 464 U.S. at 442 (contributory infringement cannot be found for a product capable of "commercially significant" or "substantial" noninfringing uses).

7. *Grokster*, 545 U.S. at 934 935.

Intent under Section 271 necessarily requires that the defendant knows both that the patent exists, and that the induced conduct will infringe it. "Thus, a person infringes by actively and *knowingly* aiding and abetting another's direct infringement. Although section 271(b) does not use the word 'knowing,' the case law and legislative history uniformly assert such a requirement." *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988) (citations omitted).

In *DSU Medical*, the Federal Circuit reaffirmed that active inducement of infringement requires a showing of specific intent, which "necessarily includes the requirement that he or she knew of the patent." 471 F.3d at 1304.[8] *See Insituform Techs., Inc. v. Cat Contracting, Inc.*, 161 F.3d 688, 695 (Fed. Cir. 1998) (no inducement where all predicate acts occurred prior to the defendant acquiring knowledge of the patent); *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990) (no inducement liability for corporate directors who first learned of the patent in the complaint).[9]

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8. Knowledge of the existence of a patent is not sufficient, by itself, to establish intent to induce. *See MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1377, 1380 (Fed. Cir. 2005) (letter from patent owner offering a license does not establish intent to induce infringement).

9. "Deliberate indifference" also must be understood in the context of other erroneous rulings by the Federal Circuit that impermissibly allow specific intent to be inferred from equivocal conduct. That court previously has held that a company can be liable because it "should have known" of the infringement, as suggested in *DSU Medical*; "should have known" of the existence of a patent, as in *Insituform*; and, now,

Cont'd

To be liable for inducing its customers to infringe, a defendant must also know that its customers' use or sale of the product would be infringing. *Cortelyou v. Charles E. Johnson & Co.*, 145 F. 933, 935 (2d Cir. 1906) *aff'd sub nom. Cortelyou v. Charles Eneu Johnson & Co.*, 207 U.S. 196 (1907); *see also Tubular Rivet & Stud Co. v. O'Brien*, 93 F. 200, 203 (C.C.D. Mass. 1898) ("[T]he defendant in a case like this must know something more than the material use to which his [products] are to be put . . . ."). *See also Henry v. A.B. Dick Co.*, 224 U.S. 1, 32 (1912), *overruled on other grounds, Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917) (holding that "the sale of any article to one who proposes to associate it with other articles to infringe a patent, when such purpose is known to the seller" is contributory infringement); *Wallace*, 29 F. Cas. at 75 (finding liability where a product was "made and sold with the express purpose of having the other elements of the patented combination added").

In *Cortelyou*, the defendant sold ink to third parties who used it in printing machines leased from the plaintiff patentee, in violation of a conditional license stamped prominently on the machines. 207 U.S. at 198. The Second Circuit held, and this Court affirmed, that the defendant was not liable because it lacked knowledge "not of the machine, not of the ink, but of the restriction

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Cont'd
can "know" of a patent by not searching for it, as in *Global-Tech*. As a result, specific intent could be shown merely by stacking failures to act one upon another—effectively creating a rule of "invented intent"; and those engaged in ambiguous, even non-culpable, conduct may find themselves secondarily liable having known neither of the existence of the patent nor of the conduct by third parties that infringed it.

agreement which alone made the sale of ink to the owners of the neostyle machines unlawful." 145 F. at 936. The court gave "little weight" to "[t]he presumption drawn from the fact that the machine was largely advertised and therefore the officers of the defendant must have known its character." *Id.* Thus, knowledge of the actual use plus a suggestion that defendants should have known the use was infringing does not add up to liability.

Consistent with these precedents, *Grokster* holds that inducement liability requires a "showing that active steps were taken *with the purpose* of bringing about infringing acts, and . . . that infringing acts took place by using the device distributed." 545 U.S. at 938; (emphasis added). Based on the evidence, the Court found "[t]he unlawful objective is unmistakable." *Id.* at 940. Grokster and StreamCast "voiced the objective that recipients use it to download copyrighted works, and each took active steps to encourage infringement." *Id.* at 924. The companies intended their product to replace a technology that had been enjoined for contributory copyright infringement; advertised and promoted the availability of copyrighted works using their product, knowing that such availability had not been authorized by the copyright owner; and advised users how to infringe copyrighted works by downloading with their software. Thus, the companies conveyed to their user base "a clear message" to promote infringement, demonstrating "unequivocal indications of unlawful purpose." *Id.* at 938.[10]

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10. Cases cited in *Grokster* also require that intent be based on knowledge that the encouraged action will constitute infringement. *See Water Techs.*, 850 F.2d at 668 (supplying infringing formulas and components, with a right to control

Cont'd

The Federal Circuit—at least until it decided the case now before this Court—had ruled that inducement required higher proof of knowledge and specific intent to cause infringement:

> It must be established that the defendant possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement. The plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts *and* that he knew or should have known his actions would induce actual infringements.

Manville Sales Corp. v. Paramount Sys., Inc., 917 F.2d 544, 553 (Fed. Cir. 1990). "[T]hat defendants have 'knowledge of the acts alleged to constitute infringement' is not enough." *Warner-Lambert Co. v. Apotex Corp.*, 316 F.3d 1348, 1363 (Fed. Cir. 2003) (drug manufacturer could not be liable for infringement of a method patent induced by the prescribing physician, absent evidence it promoted or encouraged the use of that method). To be liable, defendant must have

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and approve the final product, demonstrated knowledge and inducement of infringement). "[T]o sustain a claim of inducement, the plaintiff must establish that the defendant purposefully caused, urged or encouraged another individual to infringe plaintiff's patent *with knowledge* of the likely infringing result." *Oak Indus., Inc. v. Zenith Elecs. Corp.*, 697 F. Supp. 988, 993 (N.D. Ill. 1988) (emphasis added) (internal citation omitted). *See also, Knapp-Monarch Co. v. Casco Prods. Corp.*, 342 F.2d 622, 626-27 (7th Cir. 1965) (finding no inducement where defendant "lacked knowledge of the alleged infringement . . . [and] cannot be said to have been [guilty of] active 'inducement' of infringement.").

"knowingly induced infringement and possessed specific intent to encourage another's infringement." *MEMC Elec. Materials, Inc.*, 420 F.3d at 1378 (internal citation omitted). "Inducement requires proof that the accused infringer knowingly aided and abetted another's direct infringement of the patent." *Rodime PLC v. Seagate Tech., Inc.*, 174 F.3d 1294, 1306 (Fed. Cir. 1999).[11]

Where a product or service is useful for both infringing and noninfringing purposes, liability cannot be based on knowledge of possible or actual user infringement, without proof of intent to cause the infringement. "[M]ere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability." *Grokster*, 545 U.S. at 937.[12] "Especially where a product has substantial noninfringing uses, intent to induce infringement cannot be inferred even when the defendant has actual knowledge that some users of its product may be

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11. Conversely, a lack of subjective intent provides a complete defense to inducement under Section 271(b). Reliance on advice of counsel that a product design would not infringe a particular patent has been found sufficient to defeat the intent element of inducement. *See Micro Chem. v. Great Plains Chem.*, 194 F.3d 1250, 1261 (Fed. Cir. 1999); *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d at 553. Similarly, instructions to customers on noninfringing uses, as well as for uses believed in good faith not to infringe, cannot establish specific intent to induce infringement. *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, __ F. Supp. 2d __, 2010 WL 4366130, at *3, *15, and *20 (E.D. Ky. Oct. 28, 2010).

12. As the Court noted, "Grokster and StreamCast are not, however, merely passive recipients of information about infringing use." *Id.* at 923.

infringing the patent." *Warner-Lambert Co.*, 316 F.3d at 1365. "'[S]ale of a lawful product by lawful means, with the knowledge that an unaffiliated, third party may infringe, cannot, in and of itself, constitute inducement of infringement.'" *Dynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263, 1276 n.6 (Fed. Cir. 2004), *citing Organon Inc. v. Teva Pharms., Inc.*, 244 F. Supp. 2d 370, 380 (D.N.J. 2002). *See also, Snyder v. Bunnell*, 29 F. 47, 47 (C.C.S.D.N.Y. 1886) (finding no intent where there was "no direct proof" that any buyer actually used defendant's product to build infringing devices); *George Haiss Mfg. Co.*, 2 F. Supp. at 733.

Thus, where a manufacturer or distributor engages in conduct that would be equally pertinent to the noninfringing uses of a product or service, evidence of intent is not, in the words of *Grokster*, "clear," "unequivocal," or "unmistakable." A manufacturer or distributor cannot be liable for acts that ordinarily would pertain to the lawful as well as the infringing uses of a product or service. Even if a defendant's "articles are in fact used in the patented combinations" by a third party, intent to infringe cannot be implied from sales alone. *Thomson-Houston Electric Co. v. Kelsey Electric R. Specialty Co.*, 75 F. 1005, 1008 (2d Cir. 1896).[13] "The mere sale of a product capable of substantial non-infringing uses does not constitute indirect infringement

13. Petitioners' assertion that sale of a product alone can meet the active conduct requirement of Section 271(b), Pet'rs' Br. 20, runs directly contrary to established law, as well as logic. Mere sale of a product or offer of a service with noninfringing uses equally demonstrates an intent to induce noninfringing conduct. Intent only can be imputed from mere sale in the context of contributory infringement under Section 271(c), where a product has no commercially significant noninfringing uses.

of a patent." *Dynacore Holdings Corp.*, 363 F.3d at 1275. "Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves." *Grokster*, 545 U.S. at 937. Moreover, advertisements and solicitations will not support a charge of inducement unless they "broadcast[] a message designed to stimulate others to commit violations." *Id.*[14]

C. Defendants Have No Obligation to Preemptively Prevent Infringement, If There is No Evidence of Specific Intent to Induce Infringement.

Similarly, the law does not require defendants to anticipate or preempt acts of infringement. "[I]n the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the [staple article of commerce] safe harbor." *Grokster*, 545 U.S. at 939 n.12.

Pre-1952 cases established the principle that vendors should not be burdened with a duty to seek out and identify potential infringements by their customers. *Cortelyou*, 145 F. at 935 ("To compel the dealer to make

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14. Similarly, financial benefit from known infringing conduct does not by itself evince intent sufficient to support inducement liability. Although plaintiffs in *Grokster* proved that defendants' business and profits expanded because of infringements, "[t]his evidence alone would not justify an inference of unlawful intent . . . ." *Id.* at 940.

inquiries and take the precautions necessary to save himself from being sued as an infringer would place intolerable burdens upon business."); *Individual Drinking Cup Co. v. Errett*, 297 F. 733, 740 (2d Cir. 1924) (declining to place a duty on a vendor to determine if its products would be used in an infringing way, as this would "place a heavy burden upon trade"); *Chas. H. Lilly Co. v. I.F. Laucks, Inc.*, 68 F.2d 175, 183 (9th Cir. 1933) (similar).

Thus, "deliberate indifference" would impose liability under a standard less exacting than negligence. Whereas negligence liability requires disregard of a duty of care, as shown above there is no affirmative duty to obtain knowledge of infringement and, as shown in the next section, no affirmative duty to obtain knowledge of a patent. The Federal Circuit's ruling here threatens to undermine the requirement of specific intent, a well-established principle on which technology companies have long relied.

II. A "Deliberate Indifference" Standard Contravenes the *Grokster* Standards of Knowledge and Intent for Active Inducement.

From the earliest cases through their codification in Section 271(b), and the Court's adoption of these principles in copyright law, liability for active inducement only applies where a defendant acts with knowledge of the patent and the intent to cause third parties to engage in conduct the defendant knows will infringe. In *Global-Tech*, the Federal Circuit invented a new standard for inducement liability that hinges on a *failure* to act rather than on affirmative conduct. Thus, the

"deliberate indifference" rule effectively imposes liability for *in*active inducement.

The philosopher's stone used by the Federal Circuit to turn "indifference" to "inducement" relies on a few decisions outside the context of the patent law. In the majority of cases, the culpable "indifference" involved deliberate disregard for an express legal obligation; or, an intentional decision not to confirm facts that were otherwise apparent on their face. Neither of those scenarios pertains even by analogy to cases under Section 271(b).

As a first principle, in the absence of a patent, the public retains the free right to copy and to build upon the works of others. This right is as crucial to the progress of science and the useful arts as the grant of a patent itself:

> The attractiveness of [requiring disclosure and publication of inventions in exchange for a limited patent right], and its effectiveness in inducing creative effort and disclosure of the results of that effort, depend almost entirely on a backdrop of free competition in the exploitation of unpatented designs and innovations . . . . *[F]ree exploitation of ideas will be the rule, to which the protection of a federal patent is the exception.*

Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 151 (1989) (emphasis added). As this Court has recognized, "imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Id.* at 146. The

Patent Act does not impose a duty to avoid using a process or copying an article that is not protected by a patent.

Inasmuch as copying an unpatented product feature does not constitute infringement, logically evidence of copying cannot, by itself, show an intent to induce infringement. Absent knowledge that a particular patent covers a product or process, copying equally demonstrates an intent to engage in permissible and socially beneficial conduct.

Second, Federal Circuit precedents correctly reject any affirmative duty to determine whether a device may infringe a patent, prior to going to market. In *In re Seagate Tech., LLC* the Federal Circuit explicitly abandoned any duty of care by pre-market investigation. 497 F.3d 1360, 1371 (Fed. Cir. 2007), *overruling Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983). *In re Seagate* undermines the "deliberate indifference" rule, for three reasons. First, if there is no duty to affirmatively investigate potential infringement, neither logic nor purpose supports a duty to search for the existence of a potentially-infringed patent. Second, if a failure to search does not affect whether an infringer acted egregiously, it cannot affect the threshold question of liability.[15] Third, if no such duty exists for direct infringement, it makes no sense to impose one only for secondary liability. Thus, absent a

15. Even under the rule abandoned in *In re Seagate*, the affirmative duty of care applied only where the potential infringer had *actual notice* of another's patent rights. "Where . . . a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing. Such an affirmative

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duty of care to ascertain whether actions might constitute infringement, "indifference" to the existence of a patent cannot be culpable conduct.

Third, the cases cited by *Global-Tech* do not support its rule in the context of the patent laws. The backdrop for *Farmer v. Brennan*, 511 U.S. 825 (1994), is the duty of care imposed on prison officials under the Eighth Amendment, such that deliberate indifference to a known substantial risk of serious harm may violate that obligation. Similarly, in *Crawford-El v. Britton*, 951 F.2d 1314 (D.C. Cir. 1991), the conduct of a prison official was alleged to demonstrate deliberate indifference in contravention of constitutional obligations imposed under the First Amendment, Fifth Amendment, Sixth Amendment, and Fourteenth Amendment. The legality of the prison officials' acts in these cases did not turn on whether they conflicted with a complex and subtle regulatory enactment, the very existence of which would, at best, be time-consuming and expensive to determine *ex ante*. These cases permitted liability based on deliberate indifference where the defendant had an affirmative duty to act—not, as here, where no such duty exists.[16]

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duty includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity." *Underwater Devices*, 717 F.2d at 1389-90 (internal citations omitted). That court adopted the rule to counter what it termed a "widespread disregard" for patent rights. *In re Seagate Tech., LLC*, 497 F.3d at 1369.

16. Moreover, the risks of over-deterrence are far less troubling where personal constitutionally-guaranteed rights are concerned, as that over-deterrence will not trench on socially valuable interests in free competition and innovation.

In the other cases cited by *Global-Tech*, the courts held the potential risks were so obvious as to be clearly known to the defendant. *See Boim v. Holy Land Found. for Relief and Dev.*, 549 F.3d 685 (7th Cir. 2008) (considering civil liability for donating money to known terrorist organization); *United States v. Carani*, 492 F.3d 867 (7th Cir. 2007) (affirming child pornography conviction where defendant deliberately avoided learning the child's age); *Woodman v. WWOR-TV, Inc.*, 411 F.3d 69 (2d Cir. 2005) (plaintiff in age discrimination suit failed to establish that employer was aware of the relative ages of the employees who replaced her; discussing "conscious avoidance" in *dictum*). By contrast, even if there were a duty to perform a patent search (which the Federal Circuit has confirmed there is not), identifying the existence of a particular patent that potentially may cover a particular product is complicated by the large number of issued patents and the difficulty and uncertainty of claim construction, as discussed next.

III. This Court Should Preserve Innovation by Rejecting a "Deliberate Indifference" Standard, and Affirming that Inducement is Based On Clearly Culpable, Affirmative Conduct.

Commerce and innovation depend upon clearly-defined rules to avoid the "disastrous or even lethal consequences" of infringement suits:

> [B]usinessmen are certainly entitled to know when they are committing an infringement . . . But to what avail these congressional precautions if this Court, by its

> opinions, would subject small businessmen to the devastating uncertainties of nebulous and permissive standards of infringement under which courts could impose treble damages upon them . . . .[17]

A rule such as "deliberate indifference" lacks the predictability necessary to give businesses incentive to innovate, and capital markets confidence to invest in innovation. To promote innovation, this Court should reaffirm that a "bright-line" test applies to inducement, requiring proof of actual knowledge of the patent, not mere "indifference," and actions intended to induce conduct known to constitute infringement.

A. Imposing A "Duty to Know" Will Frustrate Commerce and Innovation.

An obligation to not be "indifferent" to the existence of relevant patents on pain of inducement liability creates an infeasible burden on business and unjustifiable costs to commerce. The potential disruption is obvious. Consider that inducement can be alleged for various types of conduct, and against multiple layers of participants in the chain of commerce. In the case at bar, a manufacturer is accused of inducement based on sale and promotion of a product that has a feature that has no noninfringing uses; but inducement also could be asserted against an importer, a distributor, or a seller. Under the Federal Circuit rule, anyone that teaches an allegedly infringing use—from a manufacturer that drafts product instructions to

17. *Aro Mfg. Co. v. Convertible Top Replacement Co., Inc.*, 365 U.S. 336, 358 (1961) (Black, J. concurring).

salespeople that demonstrate products and processes, or even doctors that prescribe dosages or medical procedures—potentially would be required to take steps so as to avoid "deliberate indifference." The social and economic costs of the obligations imposed by a deliberate indifference rule against every person subject to allegations of inducement underscore, as a matter of policy, the impracticability of the Federal Circuit's proposed standard.

These burdens, moreover, fall disproportionately on technology companies. Commentators have noted that in the field of information technology, thousands of patents potentially are pertinent to a given technology.[18] The cost to search for a patent may be $5,000 or more.[19] Small companies unable to afford the costs of searching may withhold new products or product features out of concern for patent risks;[20] and large technology companies that introduce hundreds of new products and services each year cannot reasonably be expected to run

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18. James Bessen & Michael J. Meurer, *Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk*, 9-15 to -16. (2008), *available at*, http://www.researchon innovation.org/dopatentswork/. In 2003, more than 4,300 patents related to selling products online; for an online service with advertising, receiving payments, or planning shipments, that number jumped to 11,000. *Id.*

19. *See* Bessen and Meurer, *supra* at n.18. To then perform a validity analysis costs upwards of $15,000 per patent; and an infringement analysis could add $13,000 more per patent. American Intellectual Property Law Association ("AIPLA"), *Report of the Economic Survey 2007*, at I-83.

20. In this regard, it bears remembering that many of today's successful high-technology companies, such as Apple, Microsoft, and Google, began as an innovative idea intensively

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down every rabbit hole in search of potentially relevant patents.[21]

Second, knowledge that a patent exists tells companies little about the possibility of infringement, as it can be difficult, if not impossible, to "know" whether a patent would be infringed by a particular product or service. As the Federal Trade Commission observed in a 2003 report, the patent system is characterized by uncertainty: The validity of a patent, the scope of the patent claims and their equivalents, and, therefore, infringement, cannot be known until the conclusion of litigation.[22] Empirical studies suggest that patentees ultimately lose some 75% of litigated cases,[23] and nearly

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pursued by a few dedicated individuals with few financial resources. *See* David A. Vise & Mark Malseed, *The Google Story* (2005) (detailing the founding of Google by students Larry Page and Sergey Brin).

21. At least one commentator suggests that, in the face of these burdens and costs, "[i]t is no accident that most software users do not clear rights. Checking thousands of patents is clearly infeasible for almost any software product." Bessen and Meurer, *supra* at n.18, at 9-16.

22. Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (Oct. 2003) ("FTC Report"), Ch. 5 at 2-3.

23. Paul M. Janicke and LiLan Ren, *Who Wins Patent Infringement Cases?*, 34 AIPLA Q.J. 1, 5 (2006). A recent study suggests that between 1995-2008, through trial, practicing patentees win approximately 40% of cases, and non-practicing entities win as few as 29% of cases. PriceWaterhouseCoopers, *2009 Patent Litigation Study: Patent litigation trends and the increasing impact of nonpracticing entities* 12, http://www.pwc.com/en_US/us/forensic-services/publications/assets/2009_patent-litigation-study.pdf.

45% of patent claims are held invalid.[24]

These uncertainties are particularly acute for participants in online industries, where software and business method patents predominate. As the Court observed last term, "some business method patents raise special problems in terms of vagueness and suspect validity." *Bilski v. Kappos*, ___ U.S. __, 130 S. Ct. 3218, 3229 (2010), *citing eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388, 397 (2006) (Kennedy, J., concurring). "Especially with subject matter like software and business methods, patents of uncertain scope and validity cast a shadow over innovation in new technologies." Stephen McJohn, *Scary Patents*, 7 Northwestern J. of Tech. and Intell. Prop. 343, at *1 (2009).[25]

Avoiding inutile up-front search costs diminishes only some of the economic inefficiencies created by the existing patent system. Although a substantial number of litigated patents are ultimately held invalid, patents of questionable validity that are not litigated also exact an enormous cost on innovation and our economy. As the FTC Report observed, concerns over infringement of questionable patents may retard follow-on innovation; waste resources of companies that design around them;

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24. John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205 (1998).

25. *See also*, Robert E. Thomas, *Debugging Software Patents: Increasing Innovation And Reducing Uncertainty In The Judicial Reform Of Software Patent Law*, 25 Santa Clara Computer & High Tech. L. J. 191 (2008).

induce companies to pay unnecessary defensive license fees that reflect the risks and costs of litigation rather than the true value of the invention;[26] or embroil companies in costly litigation that drains financial and human resources that could be more productively allocated to innovating new products and services.[27] These concerns further chill incentives for new capital investment in innovative technologies, and inflate prices to consumers. *Id.*

In sum, the panel's standard would ignore the realities of marketplace decisionmaking, and replace the requirement of finding a clear and culpable intent with an unpredictable, *post hoc* assessment of "indifference." Endorsing a deliberate indifference standard would implicitly impose a "duty to search" whenever a company's technology might be used by its customers to directly infringe a patent. This "duty" would be highly disruptive to existing businesses, and extremely costly to companies, consumers, and society. In light of the low success rate in infringement suits, and the significant probability that a particular patent is invalid, the

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26. [H]igh litigation costs distort patent markets by discouraging challenges to weak, potentially invalid patents and by discouraging potential competition at the borders of a patent's scope." *See* Judge T.S. Ellis, III, *Distortion of Patent Economics by Litigation Costs*, Presentation to Symposium, CASRIP Publication Series Streamlining International Intellectual Property 24 (1999), http://www.law.washington.edu/CASRIP/Symposium/Number5/pub5atel3.pdf.

27. FTC Report, Ch. 5 at 2-3. The cost of patent litigation has been estimated, in the average case, as between $3.1 million to $6.25 million per side. AIPLA, *Report of the Economic Survey 2009*, at I-129.

deadweight costs of a "deliberate indifference" rule for secondary liability cannot be justified by any putative benefit to innovation or the integrity of our patent system.

B. A "Deliberate Indifference" Rule would Threaten Development and Marketing of Products with Lawful Purposes, Contrary to this Court's Recent Precedents.

This Court's decisions concerning secondary liability recognized that overly broad or ill-defined standards chill innovation and lawful commerce. Nearly 100 years ago, the Court held that inducement liability would not attach to the mere sale of dual-use articles of commerce: "the sale of an article which though adapted to an infringing use is also adapted to other and lawful uses, is not enough to make the seller a contributory infringer. Such a rule would block the wheels of commerce." *Henry v. A.B. Dick Co.*, 224 U.S. 1, 48 (1912), overruled on other grounds, *Motion Picture Patents Co.*, 243 U.S. at 517-18 (1917).[28] The *Grokster* Court similarly stressed that, in requiring a clear purposeful and culpable expression or other affirmative steps, it was "mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential." 545 U.S. at 937.

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28. *See also Sony*, 464 U.S. at 491. In the copyright context, the need to protect innovation provided the fulcrum for the balance struck by the Court in *Sony*, and again in the Court's majority and concurring opinions in *Grokster*: "The more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing the tradeoff. ... The tension between the two values is the subject of this case . . . ." *Grokster*, 545 U.S. at 928 (citations omitted).

Google's businesses are among the most dynamic of the digital age, hence among those most sensitive to disruption by a standard for secondary liability based on too facile an objective test for contribution, or on a suddenly relaxed intent standard for inducement. The full context in which any new device, software, or service encounters copyrighted works and patented products and methods cannot be foreseen when a product or service is designed or introduced. Interaction between the product offering and the consumer must, and should, evolve over time. The highest and best—even the primary—use of an innovative product is as much up to its users as it is to its originator.[29] This has long been true for patented products[30] and is even more the case in a rapidly-evolving digital world:

> [Innovators] would have no way to predict how courts would weigh the respective values of infringing and noninfringing uses; determine the efficiency and advisability of technological changes; or assess a product's potential future markets. The price of a wrong guess—even if it involves a good-faith effort to assess technical and commercial viability—could be large . . . . The additional risk and uncertainty would mean a consequent additional chill of technological development.

29. This principle is widely described in technology circles as "the street finds its own uses for things," a turn of phrase credited to science fiction author William Gibson. William Gibson, *Burning Chrome* 199 (2003).

30. *See, e.g.*, Eric von Hippel, *The Dominant Role of Users in the Scientific Instrument Innovation Process*, Research Policy 5, 212-239 (1976), *available at* http://web.mit.edu/evhippel/www/papers/1976%20vH%20instruments%20paper.pdf.

Grokster, 545 U.S. at 959-960 (Breyer, J. concurring) (internal citations omitted).

At its most basic level, online search and hosting services, and software operating systems and application platforms, such as those of Google and its competitors, encounter millions of patented products and copyrighted works each hour, under circumstances and in connection with user innovations that change on a continual basis. No company on the planet is sufficiently well capitalized to ignore the risk that would be posed by unbounded, unavoidable, or indefinite standards of secondary liability.

A "deliberate indifference" rule would further threaten the type of collaborative innovation currently encouraged by Google and innumerable other technology companies. For many of its services, Google provides a kind of toolkit, known as an "application program interface" or "API," that developers can use to create their own innovations that build on and use Google's services. Similarly, some of the most valuable software code used today is "open source" software code that authors make available to others to use and freely build on in innovative ways, often with limited or no controls placed on how others use their code.[31] Under the Federal Circuit rule, would Google have a duty to

31. Open source collaboration provides developers a "primordial soup for combinatorial innovation" in which each added component spurs further education and development. Hal R. Varian, Joseph Farrell, & Carl Shapiro, *The Economics of Information Technology: An Introduction*, at 8 (Cambridge Univ. Press 2004). For example, the Android mobile device operating system, used today on millions of smartphones, is an open source software project led by Google. Google Inc., Open Source Project, http://source.android.com/.

search for potentially-relevant patents each time it makes its interfaces and open source code available to developers, under threat of inducement liability for every subsequent use or application, even if completely unanticipated by Google? The risk of expensive lawsuits and potentially astronomical liability would deter companies from opening up their products and services for others to build on, and would stifle some of the most valuable, productive, and collaborative means of modern innovation.

Moreover, the burden, expense, and disruption to commerce become exponentially greater should a court apply a "deliberate indifference" rule in the context of inducement of copyright infringement. Only a modicum of creativity is required for copyright protection[32] and, as recent cases show, copyright can cover a tiny design on the back of a watch or even the label on a shampoo bottle.[33] Of the more than one trillion pages on the Internet today,[34] a high percentage of them undoubtedly constitute, contain, or link to some copyrighted work. There are no inherent indicia of whether any particular one of these works is uploaded without the authority of a copyright owner, or whether posting the content could

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32. *Feist Pubs., Inc. v. Rural Tel. Svc. Co., Inc.*, 499 U.S. 340, 346-347 (1991).

33. *See Costco Wholesale Corp. v. Omega, S.A.*, No. 08-1423 (S. Ct. argued Nov. 8, 2010); *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998).

34. The Official Google Blog, *We Knew the Web was Big*, http://googleblog.blogspot.com/2008/07/we-knew-web-was-big.html (July 25, 2008).

be exempt from copyright infringement liability under a limitation or exception such as fair use. Imposing a duty to know or inferring constructive knowledge from "indifference" under copyright law could smother modern commerce and imperil the World Wide Web.

The rule of inducement under this Court's precedents properly predicates liability on affirmative steps rather than passivity, on actual knowledge rather than a lack of knowledge, and on a clearly culpable intent that must be formed before the fact, rather than some amorphous duty of care imposed after the fact. The Federal Circuit's proposed "deliberate indifference" test departs from these precedents, and should be rejected.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted,

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AMICUS CURIAE BRIEF

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GLOBAL-TECH APPLIANCES INC. and
PENTALPHA ENTERPRISES, LTD.,

Petitioners,

v.

SEB S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FEDERAL CIRCUIT

AMICUS CURIAE BRIEF OF INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF NEITHER PARTY

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INTEREST OF *AMICUS CURIAE*

Amicus curiae Intellectual Property Owners Association (IPO) is a trade association representing companies and individuals in all industries and fields of technology who own or are interested in U.S. intellectual property rights.[1] IPO's membership includes more than 200 companies and a total of over 11,000 individuals who are involved in the association either through their companies or as inventor, author, executive, law firm, or attorney members. Founded in 1972, IPO represents the interests of all owners of intellectual property. IPO regularly represents the interests of its members before Congress and the United States Patent and Trademark Office and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law. The members of IPO's Board of Directors, which approved the filing of this brief, are listed in the appendix.[2]

1. No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amicus curiae* or its counsel made a monetary contribution to its preparation or submission. Both parties in this case consented to the filing of *amicus briefs* in support of either party or neither party by letters submitted to this Court on November 10 and 15, 2010.

2. IPO procedures require approval of positions in briefs by a three-fourths majority of directors present and voting.

I. INTRODUCTION

As is often true in patent cases, this case requires careful balancing of competing public and private considerations. As the Court noted in *Bonito Boats*,

> Article I, § 8, cl. 8, of the Constitution gives Congress the power '[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.' The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'

Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 146 (1989); *see also MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 928 (2005) ("[T]he administration of copyright law is an exercise in managing the [same] tradeoff.").

On the one hand, if the intent requirement for active inducement of infringement is too easily satisfied, there is a risk that 35 U.S.C. § 271(b) may "compromise legitimate commerce or discourage innovation having a lawful purpose." *Grokster*, 545 U.S. at 937. On the other hand, Section 271(b) is for all practical purposes nullified if a patent owner must prove that the defendant actually intended for its customers, consumers or other users of its products or services to infringe another's patent. Rarely, if ever, does a defendant actually intend to cause

its customers to engage in the legal wrong of patent infringement, and even more rarely would it be possible to prove such intent. The defendant may intend to cause the underlying acts by its customers that are alleged to constitute direct infringement, but typically the defendant believes that the acts it induces do not infringe.

In many cases no direct evidence exists that the defendant actually knew of the asserted patent before the action was filed. Absent the smoking gun to the contrary, however, there may be circumstantial evidence that the defendant knew of a greater, more specific risk of patent infringement than the inherent risk that some patent claim may exist that covers the use of any product or service launched into the marketplace. The evidence may further show that the defendant chose to disregard that known risk, with the result being the action alleging active inducement of infringement under Section 271(b). In such cases, if the totality of such circumstantial evidence is sufficient, Section 271(b) should treat it as legally analogous to direct evidence that the defendant actually knew of the asserted patent before the action was filed.

This Court previously stated that liability for inducement should be premised upon "purposeful, culpable expression and conduct." *Id.* In the context of claims for active inducement of patent infringement arising under 35 U.S.C. § 271(b), applying *Grokster's* culpable intent standard suggests a middle ground between the Federal Circuit's "deliberate indifference" standard applied in this case and the standard enunciated in the *en banc* portion of the Federal Circuit's

opinion in *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293, 1306-07 (Fed. Cir. 2006) (*en banc* in relevant part), arguably requiring not only proof of actual pre-suit knowledge of the particular asserted patent, but also the specific intent to encourage the legal wrong of infringement of that patent by others. A middle ground more appropriately balances the competing public and private considerations underlying the patent laws than does either extreme.

As explained more fully in the following Argument, IPO's proposed standard would require:

- conduct by the defendant actively encouraging the underlying acts that constitute direct infringement of a patent by another;

- purposeful disregard of a known and substantial risk that patent infringement would arise from those acts; and

- a causal connection between the allegations of direct infringement and the known risk of patent infringement that the defendant disregarded.

For the reasons stated below, IPO urges the Court to adopt this middle ground position.

II. SUMMARY OF THE ARGUMENT

The "deliberate indifference of a known risk" test articulated by the Federal Circuit in *SEB* risks diverting focus from the culpability described in *Grokster* that is required for a finding of vicarious liability for

infringement by another. Because sellers of goods or services almost always know that *some* risk exists of infringement of *some* patent, the Federal Circuit's test too easily devolves into negligence – *i.e.*, that the defendant knew or should have known of the risk of patent infringement, no matter how remote that risk or how unrelated any known risk may have been from the allegations of patent infringement in the action. Additionally, the Federal Circuit's test skirts too close to shifting the burden to the defendant to establish a sufficient level of care in identifying and eliminating all reasonable infringement risks.

A "purposeful, culpable expression and conduct" to encourage acts that constitute direct infringement of a patent, *cf. Grokster*, 545 U.S. at 937, should require conduct actively encouraging the acts that constitute direct infringement of a patent, with a purposeful disregard of a known risk that is causally connected to the direct infringement alleged in the action. By requiring causation between the risk that is knowingly and purposefully ignored and the direct infringement, this standard ensures that the focus properly remains on whether the defendant's disregard of the risk is *culpable* in the context of the resulting charge of infringement. This approach is thus consistent with *Grokster*.

Actual pre-suit knowledge of the asserted patent – proven by direct or circumstantial evidence – and intent to induce the acts that constitute its infringement clearly would satisfy this standard. But actual knowledge of the asserted patent should not be an absolute requirement. Putting one's proverbial head in the sand – perhaps

taking care *not* to know of the particular patent that is later asserted – should not allow one to avoid liability for inducement; to so hold would gut Section 271(b). In any event, knowledge of any risk of potential infringement does not suffice; rather, there must be purposeful disregard of a risk that is specific, known, and that leads to the direct infringement claim.

III. ARGUMENT

A. The Federal Circuit's "Deliberate Indifference of a Known Risk" Standard May Create Liability for Induced Infringement Without Evidence of the Culpable Intent Required By *Grokster*.

The Court has recognized the analogies between patent and copyright law; thus, the test for inducing patent infringement should be in harmony with that for copyright infringement. *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (drawing analogy from patent to copyright law in view of their "historic kinship"). In *Grokster*, the Court premised liability for inducing copyright infringement by another on "purposeful, culpable expression and conduct":

> [O]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties. We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of

> technologies with lawful and unlawful potential. Accordingly, just as *Sony* did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The inducement rule, instead, premises liability on ***purposeful, culpable expression and conduct***, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.

Grokster, 545 U.S. at 936–37 (internal citations omitted) (emphasis added).

The Federal Circuit's "deliberate indifference of a known risk" test, however, may create liability absent the culpable intent required by *Grokster*. Most notably, the Federal Circuit's standard fails to articulate what qualifies as a "known risk," including what level of risk must be known and ignored, the plausibility of that risk, and whether any connection must exist between that risk and the actions alleged to constitute direct infringement by another. Clarity and specificity on these issues determine whether the defendant's intent to cause the acts alleged to infringe was in fact "culpable" or not.

The Federal Circuit expressly declined to "establish the outer limits of the type of knowledge needed for inducement" and suggested that, in some circumstances, "constructive knowledge" would be sufficient. *SEB*, 537 F.3d at 1378. The implications of this uncertainty are problematic. It is hardly a secret that there is inherent risk that a claim from at least one of the millions of unexpired U.S. patents may cover a customer's use of any new product or service that is released to the market. Taken to an extreme, the Federal Circuit's open-ended standard might require investigation of this inherent risk before a company releases any product or service. Like assessing negligence, accusations of inducement under the Federal Circuit's test would turn on whether a reasonable defendant "should have known" about a particular patent infringement risk.

Thus, the Federal Circuit's "deliberate indifference" standard not only runs the risk of devolving into negligence, but also risks shifting the burden to the defendant to establish that it met a standard of care in identifying and eliminating any reasonable infringement risks created by any potential uses of its products or services. Under the Federal Circuit's standard, a plaintiff, who ordinarily must prove the defendant's affirmative intent to induce, would merely have to allege the existence of a risk that the defendant ignored. The defendant would then have to refute the allegation by showing that it did not act with "deliberate indifference of a known risk." *See id.* at 1377–78 ("Pentalpha did not produce any exculpatory evidence. As noted, proof of knowledge through a showing of deliberate indifference may be defeated where an accused infringer establishes that he actually believed that a patent covering the

accused product did not exist. But here Pentalpha did not argue that it or its employees actually believed that an SEB patent did not exist."). This shift, which essentially creates an affirmative duty of care to avoid inducing infringement, is not consistent with *Grokster*'s requirement of culpable intent.[3]

Moreover, if inducement equates to the encouragement of any act by another that is later found to infringe a patent, the intent element is meaningless and active inducement of infringement becomes strict liability for all practical purposes, which is also inconsistent with the relevant statutory scheme. 35 U.S.C. § 271(a) imposes strict liability for direct infringement. *See Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 484 (1964) ("Not only does [35 U.S.C. § 271(a)] explicitly regard an unauthorized user of a patented invention as an infringer, but it has often and clearly been held that unauthorized use, without more, constitutes infringement"). Subsection (c) expressly requires

3. The duty of care erected by the Federal Circuit's "deliberate indifference" standard is analogous to that which the court struck down *en banc* in *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007) *cert. denied sub nom. Convolve, Inc. v. Seagate Tech., LLC*, No. 07-656, 2008 U.S. LEXIS 2153 (2008). In Seagate, the court overruled its own earlier precedent that stated "Where . . . a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing. Such an affirmative duty includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity." *Id.* at 1368-69 (quoting *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983)).

"knowing" of the asserted patent for contributory infringement. Subsection (b), on the other hand, on its face does not require actual knowledge of a patent as an absolute predicate for active inducement of its infringement. But active inducement of direct patent infringement by another does require culpable intent, which in the *Grokster* context means an intentional encouragement of uses of a product or service by customers that constitute copyright infringement. 545 U.S. at 919 ("[O]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.").

B. The Federal Circuit's Test Imposes Undue Burdens On Businesses.

The Federal Circuit's "deliberate indifference" standard, by in essence resurrecting the duty of due care that *Seagate* removed from the Federal Circuit's willful infringement jurisprudence, would have a chilling effect on business due to the extreme level of care and resulting financial burden that may be required prior to introducing a product or service to the market. Although *Grokster* made clear that "ordinary acts incident to product distribution" cannot support liability, 545 U.S. at 937, this new standard seemingly may require a company to perform a patent search and obtain a legal clearance opinion prior to launching a product or service in order to demonstrate it is not deliberately ignoring risks.

Under the "deliberate indifference" standard, a company might fear that it should perform these tasks for every foreseeable potential use of a new product or service. These activities cost significant time and money. *See, e.g.*, *Seagate*, 497 F.3d at 1385 (Newman, J., concurring) ("I am sympathetic when told of the disproportionate burdens that a rigorous reading of *Underwater Devices* has placed on otherwise law-abiding commercial enterprise."); *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1345 (Fed. Cir. 2004) (recognizing "the burdens and costs of the requirement . . . for early and full study by counsel of every potentially adverse patent of which the defendant had knowledge"). As such, IPO submits that the Federal Circuit's standard may "compromise legitimate commerce or discourage innovation," just as this Court warned against in *Grokster*. 545 U.S. at 937.

C. IPO'S Three-Part Standard Strikes The Appropriate Balance.

For claims of active inducement of patent infringement arising under 35 U.S.C. § 271(b), applying the "culpable intent" standard from *Grokster* suggests a middle ground between the Federal Circuit's "deliberate indifference" standard articulated in *SEB* and an absolute requirement of knowledge of the particular patent-in-suit, along with the specific intent to induce the legal wrong of infringement, that followed from the Federal Circuit's ruling in *DSU Medical*.

As discussed above, a plaintiff can rarely, if ever, directly prove the actual intent to induce the legal wrong

of infringement of a known patent. But stopping one step short of that, by requiring actual pre-suit knowledge of the patent asserted in the litigation, unjustifiably forecloses liability in egregious situations where the accused infringer knew of a specific risk of infringement, induced acts that resulted in infringement of that patent and yet acted purposefully to make sure there was no direct evidence establishing that it actually knew of the patent-in-suit. In those circumstances, courts should retain flexibility to impute culpable intent. Moreover, for the reasons discussed above, this Court's culpable intent requirement necessitates a nexus between the risk that is knowingly and purposefully ignored and the conduct that induces direct infringement.

Therefore, the IPO proposes a three-part test for active inducement of patent infringement: (a) conduct by the defendant actively encouraging the underlying acts that constitute direct infringement of a patent; (b) purposeful disregard of a known risk of patent infringement arising from those acts; and (c) a causal connection between the known risk of patent infringement arising from those acts and the direct infringement.

Liability under this standard would extend to those defendants who knew of the patent asserted in the lawsuit yet purposefully disregarded the risk that the actions the defendant was encouraging would constitute direct infringement. Liability might also be established if the evidence showed that the defendant purposefully made sure *not to know* about the patent-in-suit, despite evidence showing that the defendant had reason to know

of the risk of its existence and the risk that the actions the defendant was inducing would constitute direct infringement. *See Grokster*, 545 U.S. at 933-34 (explaining that the appellate court erred in reading *Sony* to foreclose inducement liability "unless the distributors had specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information") (quotation omitted). Part three of the test ensures that liability always would require purposeful disregard of a *known risk causally connected to the direct infringement.* Circumstantial evidence of such purposeful disregard may include, for example, evidence of a defendant's copying a competitor's product, ignoring patent markings on competitive products, or knowing of lawsuits filed against competitors marketing similar products.

To be clear, however, Section 271(b) does not impose strict liability for another's direct infringement. Regardless of whether the defendant intended to induce the actions by another that result in direct infringement, *Grokster* makes clear that culpability must be proven, whether by evidence that the defendant had actual knowledge of the asserted patent at the time the defendant induced the actions by another found to directly infringe, or by imputing culpability if the evidence shows the defendant purposefully disregarded a risk that is specific, known, and that leads to the direct infringement claim.

Companies operating in industries where hundreds or thousands of patents may be in force are not disregarding the risk of patent infringement by

introducing and selling their products or services. Thus, "ordinary acts incident to product distribution," *Grokster*, 545 U.S. at 937, including introducing and marketing a new product despite the inherent risk that use of the product may be covered by a patent, without more, would not give rise to liability under IPO's proposed standard.

IV. CONCLUSION

The Federal Circuit's standard in *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360 (Fed. Cir. 2010) creates too low of a burden upon the patentee to establish an alleged infringer's intent to induce infringement. As this Court explained in a copyright context, "purposeful, culpable expression and conduct" must be demonstrated to establish liability for inducing infringement. *Grokster*, 545 U.S. at 937. To merely require proof of a "deliberate indifference of a known risk" risks a finding of liability without the culpability required by the Court in *Grokster*. The appropriate standard requires a patentee to establish conduct by the defendant actively encouraging the underlying acts of direct infringement, a purposeful disregard of a known risk that patent infringement would arise from those acts, and a causal connection between the known risk of infringement arising from those acts and the direct infringement.

Respectfully Submitted,

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AMICUS CURIAE BRIEF

No. 10-6

IN THE

Supreme Court of the United States

GLOBAL-TECH APPLIANCES, INC., AND PENTALPHA ENTERPRISES, LTC.,

Petitioners,

v.

SEB, S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR HOFFMANN-LA ROCHE INC., CATERPILLAR INC., GENERAL ELECTRIC COMPANY, JOHNSON & JOHNSON, LUTRON ELECTRONICS CO., INC., 3M COMPANY, AND THE PHARMACEUTICAL RESEARCH AND MANUFACTURERS OF AMERICA AS AMICI CURIAE IN SUPPORT OF RESPONDENT

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QUESTION PRESENTED

35 U.S.C. § 271(a) provides in part: "whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent."

Section 271(b) of the Patent Act provides: "Whoever actively induces infringement of a patent shall be liable as an infringer."

The question presented is:

Whether the Federal Circuit has erred in holding that the statutory phrase, "Whoever actively induces infringement of a patent," excludes a person who (i) actively induces another to perform acts that § 271(a) defines as infringement, but who (ii) is deemed ignorant of, or mistaken concerning, the legal status of the induced acts.

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INTEREST OF AMICI CURIAE

Hoffmann-La Roche Inc. develops, manufactures, and markets diverse pharmaceutical and biotechnology products. Caterpillar Inc. is the world's largest maker of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines. General Electric Company is a high-tech infrastructure and financial services company with global leadership positions in energy, oil and gas, healthcare, transportation, water, and consumer products. The Johnson & Johnson family of companies develops, manufactures, and markets a wide variety of pharmaceutical, biotechnology, medical device, and consumer products. Lutron Electronics Co., Inc. is a world leader in the design and manufacture of lighting control and energy management solutions for both residential and commercial applications. 3M Company is a diversified technology company with a leading global presence in the health care, industrial, display and graphics, consumer and office, safety, security and protection services, electronics and telecommunications, and transportation markets, applying its technologies to produce and sell more than 55,000 products and services to customers around the world. The Pharmaceutical Research and Manufacturers of America (PhRMA) is a voluntary association that represents research-based pharmaceutical and biotechnology companies, a listing of which is available at www.phrma.org. Amici and PhRMA members own significant patent portfolios and, at times, are both plaintiffs and defendants in patent infringement actions. As direct participants in the United States patent system, Amici are vitally interested in the proper interpretation of 35 U.S.C. § 271(b) and that statute's continued viability as a meaningful source of protection for patented inventions.[1]

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[1] No counsel for any party authored this brief in whole or in part. No party made a monetary contribution intended to fund the preparation or submission of this brief. The parties have consented to the filing of this brief.

SUMMARY OF THE ARGUMENT

The central issue in this case is whether, for liability to be imposed on a person who actively induces conduct that constitutes patent infringement, the inducer must have had certain legal knowledge—namely, knowledge that, as a matter of law, the induced acts constituted infringement of a particular patent. For at least four reasons, no such requirement of legal knowledge should be engrafted onto the statutory provision governing induced patent infringement liability.

First, the statutory language itself imposes no such knowledge requirement. Section 271(b) of the Patent Act provides that "[w]hoever actively induces infringement of a patent shall be liable as an infringer." Absent from that statutory language is any word indicating a legal knowledge requirement even though other subsections of § 271 expressly include the word "knowing" to denote such a requirement. Furthermore, the concept of "infringement of a patent" refers to the acts specified in § 271(a) that generate infringement liability (e.g., "mak[ing], us[ing]," etc. a patented invention without authority from the patentee). Under a straightforward reading, the text of § 271(b) imposes liability on any person who actively induces another to perform acts that constitute patent infringement under § 271(a), without regard to the inducer's knowledge of patent law.

Second, well-established common law principles support interpreting § 271(b) as imposing no requirement of legal knowledge. Under both the First and Second Restatements of Torts, a person who "induces" another's tortious conduct is subject to liability without any requirement of knowledge "that the other's conduct constitutes a breach of duty." Rather, under the approach of the Restatements, a person who "induces" another's tortious act may be held liable if they act knowing merely "the conditions under which the act is done" or intending "the consequences which ensue."

Third, prior to the enactment of § 271(b), this Court had held that secondary liability for patent infringement could rightly be imposed on a person who

actively induced others to perform acts that infringed a complainant's patent, notwithstanding that the inducer may have relied on advice of counsel and did not know or believe that the induced acts constituted patent infringement. Subsequent decisions of this Court—including *Metro-Goldwyn-Mayer Studios Inc. v. Grokster*, 545 U.S. 913 (2005)—have never imposed a requirement that liability for induced infringement depended on a party understanding the legal consequences of the induced acts.

Fourth, interpreting § 271(b) as not requiring knowledge or belief as to the legal status of induced acts is strongly reinforced by "'the common maxim, familiar to all minds, that ignorance of the law will not excuse any person, either civilly or criminally.'" *Jerman v. Carlisle, McNellie, Rini, Kramer & Ulrich LPA*, 130 S. Ct. 1605, 1611 (2010) (quoting *Barlow v. United States*, 32 U.S. (7 Pet.) 404, 411 (1833) (Story, J.)). This principle has long and traditionally been applied to conduct that invades property rights. *Id.* at 1612 ("intentional tort of trespass can be committed despite the actor's mistaken belief that she has a legal right to enter the property").

The Court should affirm the Federal Circuit's judgment in this case, but should disapprove the rule of decision that was applied below. In *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006) (en banc), the Federal Circuit misread this Court's *Grokster* decision as holding that ignorance or mistake of law could defeat liability under 35 U.S.C. § 271(b). *Grokster* held no such thing. Consistently with the plain meaning of the text of § 271(b), *Grokster* construed "inducement of infringement" by reference to what a person actively induces another *to do*, not by reference to a person's beliefs as to the legal status of induced acts.

Petitioner and its amici urge an interpretation of § 271(b) would effectively gut the statute and upset the careful balance of public and private rights that Congress struck in 35 U.S.C. §§ 271(b) and (c). The facts of the present case dramatically illustrate this point.

The Petitioner here designed, made, and marketed to retail distributors, for re-sale in the United States, finished products whose design embodied an invention that was protected by a valid United States Patent owned by Respondent. There is no question but that this Petitioner "actively induce[d]" its retail distributors to engage in conduct -- *sales* -- that infringed the Respondent's patent.

Yet Petitioner and its amici assert that Petitioner, the manufacturing supplier, should not share liability with its retail distributors under 35 U.S.C. § 271(b), because Petitioner was not shown to have had actual knowledge of Respondent's patent at relevant times. Petitioner and its amici are wrong.

Under a correct interpretation of § 271(b), the relevant inquiry is whether Petitioner "actively induce[d]" its distributors to perform acts, such as sales, that infringed Respondent's patent under § 271(a). Petitioner's claimed ignorance of Respondent's patent is irrelevant to the liability inquiry under §§ 271(a) and (b), as is whether Petitioner's claimed ignorance resulted from "deliberate indifference of a known risk" (594 F.3d at 1377) or some other cause.

The judgment below should be affirmed, but on the fundamental ground that a person's claimed ignorance or mistake as to the legal status of actively induced acts is irrelevant to the existence of liability under 35 U.S.C. § 271(b).

ARGUMENT

I. THE STATUTORY TEXT AND STRUCTURE DEMONSTRATE THAT NO DEGREE OF LEGAL KNOWLEDGE IS REQUIRED TO IMPOSE INDUCEMENT LIABILITY.

A. The Text of § 271(b).

Section 271(b) provides in full: "Whoever actively induces infringement of a patent shall be liable as an infringer." The statute has two crucial phrases, "actively induces" and "infringement of a patent." Neither provides any basis for engrafting onto the statute a requirement of legal knowledge.

The phrase "actively induces" is best interpreted to mean the taking of active steps that "call forth, or bring about by influence or stimulation." Webster's Third New International Dictionary 1154 (2002). Nothing in the phrase "actively induces" means or suggests that the actor must know the legal status of induced acts.

The statutory phrase, "infringement of a patent," is best interpreted in light of subsection (a) of § 271, which contains an express definition of when a person "infringes" a patent. Subsection (a) provides in full: "Except as otherwise provided in this title, *whoever* without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, *infringes the patent*." (Emphasis added.)

Section § 271(a) defines patent infringement in terms of whether a person ("whoever") has performed specified acts ("makes," "uses", "sells", etc.). A person who makes unauthorized use of a patented invention is defined as an infringer, period. Liability for infringement under § 271(a) is not dependent on whether a person knows of a patent's existence or believes that a patent excludes particular acts. *See Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964) ("*Aro II*").

The broad sweep of 35 U.S.C. § 271(a) was expressly considered in *Aro II*. The patent at issue in *Aro II* disclosed and claimed a combination of elements that collectively made up an automobile convertible top apparatus. The patented invention had been embodied in certain model year vehicles without license from the patent owner. The purchasers of these vehicles had no knowledge of the complainant's patent, but notwithstanding this lack of knowledge, the Court held that repair of the unlicensed vehicles' convertible tops would constitute infringement under § 271(a), because "unauthorized use, without more, constitutes infringement" under § 271(a). *Aro II*, 377 U.S. at 484.

Patents are deemed by statute to "have attributes of personal property." 35 U.S.C. § 261. In-

fringement of a patent has long been characterized as "a tortious taking of part of that property." *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 648 (1915). *See also Carbice Corp. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33 (1931) ("Infringement, whether direct or contributory, is essentially a tort, and implies invasion of some right of the patentee.").

In providing that "unauthorized use, without more, constitutes infringement," *Aro II*, 377 U.S. at 484, the Patent Act establishes a liability rule that parallels one long and traditionally applied to invasions of property rights generally. Under traditional property law, the intent required for trespass liability is merely the intent to enter, a person making unauthorized entry is liable even though "he has acted in good faith, under the mistaken belief, however reasonable, that he is committing no wrong." William L. Prosser, *Law of Torts* § 13, at 89 (1941). *Accord* Dan B. Dobbs, *The Law of Torts* § 51, at 98-99 (2000) (similar). *See also Jerman*, 130 S. Ct. at 1612 ("intentional tort of trespass can be committed despite the actor's mistaken belief that she has a legal right to enter the property") (citing Restatement (Second) of Torts § 164 (1965)).

Thus, under its plain terms, § 271(b) reaches any person who "actively induces"—i.e., calls forth, or brings about by influence or stimulation — acts, such as acts of making or selling, that § 271(a) defines as infringement. A person's claimed ignorance or mistake concerning the legal status of induced acts is irrelevant to liability under § 271(b), just as it is irrelevant to whether induced acts constitute infringement of a patent under § 271(a).

B. The Statutory Structure and the Contrast Between §§ 271 (b) and (c)

The absence, in § 271(b), of any requirement that an actor know or believe that induced acts infringe a patent, is made even clearer when the text of § 271(b) is compared with that of 35 U.S.C. § 271(c). The latter section provides (emphasis added):

> *Whoever offers to sell or sells within the United States* or imports into the United States a component of a patented machine,

> manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, *knowing the same to be especially made or especially adapted for use in an infringement of such patent,* and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

Section 271(c) defines a species of contributory infringement liability in which the requisite degree of causal responsibility for infringement is lower than that prescribed in § 271(b), but which is conditioned on a showing that a person performed specified acts "*knowing the same to be especially made or especially adapted for use in an infringement of such patent.*" (Emphasis added). The "knowing" requirement of § 271(c) has been held to mean that the person know that "the combination for which his component was especially designed was both patented and infringing." *Aro II*, 377 U.S. at 488.[2]

The imposition of a "knowing" requirement in § 271(c), and the omission of any such requirement in § 271(b), is clearly intentional, and reflects a carefully-crafted balance of public and private rights. Where a person is shown to have "actively induced" another to perform acts that infringe a patent or copyright, such a showing "overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use." *Grokster*, 545 U.S. at 936. Additionally, as illustrated by *Leeds & Catlin Co. v. Victor Talking*

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[2] Similarly, subsection (f) of section 271 includes two parallel paragraphs, with one including, and the other not including, an explicit knowledge requirement. See 35 U.S.C. § 271(f)(1) & (2). The paragraph devoted to acts that "actively induce" infringement is the paragraph that does not include a knowledge requirement. See 35 U.S.C. § 271(f)(1). *See also AT&T v. Microsoft Corp.*, 550 U.S. 437, 449 (2007) ("We construe § 271(f)'s terms 'in accordance with [their] ordinary or natural meaning.'") (quoting *FDIC v. Meyer*, 510 U.S. 471, 476 (1994)).

Machine Co., 213 U.S. 301 (1909) ("*Leeds & Catlin No. 1*") and *Leeds & Catlin Co. v. Victor Talking Machine Co. (No. 2)*, 213 U.S. 325 (1909) ("*Leeds & Catlin No. 2*"), where a person actively induces another to engage in acts that constitute patent infringement, the inducer's erroneous belief as to the legal status of the induced acts is no defense to liability, even if based on advice of counsel. *See* 150 F. 147 ("Nor is the advice of counsel a sufficient excuse. . . .").[3]

On the other hand, a person that merely sells a non-infringing product to another, and does not affirmatively promote or otherwise instigate use of the product in a manner that infringes a patent, is not fairly characterized as one who "actively induces infringement of a patent." 35 U.S.C. § 271(b). Rather, to impose secondary liability on such a person, a patentee must show that (i) the sold product constituted "a material part" of the invention, (ii) the sold product was "not a staple article or commodity of commerce suitable for substantial noninfringing use," and (iii) the defendant acted "*knowing the same to be especially made or especially adapted for use in an infringement of such patent.*" 35 U.S.C. § 271(c) (emphasis added). *See Aro II*, 377 U.S. at 484-88.

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[3] Amici 41 Law, Economics, and Business Professors assert (41 Prof. Br. at 2-6) that the Court should read a "knowing" limitation into § 271(b), because otherwise § 271(b) would render § 271(c) "superfluous." These law and non-law professors are wrong. Section 271(c) encompasses situations where a person seeks out supplies or components with which to carry out a pre-existing plan of commercial activity that infringes a patent. A supplier that receives and fills such a person's order for non-staple components in such circumstances would not likely be one who "actively induces" its customer's infringement under § 271(b), but could well be held liable under § 271(c) if the requirements of the latter section were satisfied. This example shows how the "knowing" requirement in § 271(c) serves a role that Congress deemed unnecessary for persons whose role in bringing about an infringement rises to the level of "actively induces."

Section 271(c) demonstrates that Congress clearly knows how to condition secondary liability for patent infringement on proof that an actor engaged in conduct "knowing" that patent infringement was being supported. No such condition appears in § 271(b). To engraft such a requirement on § 271(b) would upset the statutory scheme and generate costly and uncertain litigation concerning actors' legal knowledge or beliefs at relevant times, a type of determination that has long been recognized as entailing "extreme difficulty," *Jerman*, 130 S. Ct. at 1623 (quoting *Barlow*, 32 U.S. (7 Pet.) at 411), and one whose difficulty creates opportunities for artifice and evasion as described in Part IV, *infra*.

II. THE COMMON LAW BACKGROUND SUPPORTS INTERPRETING § 271(b) AS NOT REQUIRING LEGAL KNOWLEDGE.

The different secondary liability standards prescribed in 35 U.S.C. § 271(b) and (c) generally parallel those set forth in Section 876 of the Restatement of Torts (1939) (the "First Restatement").[4] The First Restatement provides additional strong support for interpreting the phrase, "Whoever actively induces infringement of a patent," 35 U.S.C. § 271(b), as referring to any person who actively induces another to perform acts that § 271(a) defines as infringement.

Section 876 of the First Restatement provides in part:

> For harm resulting to a third person from the tortious conduct of another, a person is liable if he
>
> (a) orders or induces such conduct, knowing of the conditions under which the act is done or intending the consequences which ensue, or

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[4] The substance of Section 876 of the First Restatement was carried over in Sections 876(b) and 877(a) of the Restatement (Second) of Torts (1977).

(b) knows that the other's conduct constitutes a breach of duty and gives substantial assistance or encouragement to the other so to conduct himself. . . .

Similarly to 35 U.S.C. § 271(b), the above-quoted Section 876(a) of the First Restatement prescribes secondary liability for a person who "induces" another's tortious act, "knowing of the conditions under which the act is done or intending the consequences which ensue." "Induces" in this context connotes a high degree of causal responsibility; and for a person who "induces" tortious conduct of another, Section 876(a) of the First Restatement prescribes secondary liability without regard for whether such a person "knows that the other's conduct constitutes a breach of duty."

By contrast, Section 876(b) of the First Restatement imposes secondary liability on a person who "*knows* that another's conduct *constitutes a breach of duty*" and, having such knowledge, "gives substantial assistance or encouragement" to another's commission of a tort. "Assistance or encouragement" in this context connotes a lesser degree of causal responsibility than does "induces," and that lesser degree of causal responsibility is counter-balanced in the First Restatement by the heightened degree of culpability specified in the state of mind requirement, "*knows that the other's conduct constitutes a breach of duty.*" (Emphasis added). First Restatement § 876(b).[5]

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[5] Amici Comcast et al. acknowledge the relevance of the First Restatement (Comcast Br. at 13), but wrongly suggest that there is no difference between the liability rules stated in First Restatement §§ 876(a) and (b). In fact, as set forth in the text, "know[ledge]" that another's conduct "constitutes a breach of duty" is required for liability under First Restatement § 876(b) but not under First Restatement § 876(a), just as a similar knowledge requirement is prescribed by 35 U.S.C. § 271(c) but not by 35 U.S.C. § 271(b).

Amici Comcast et al. also wrongly suggest (Comcast Br. at 7-14) that 35 U.S.C. § 271(b) purportedly "codified" some supposed pre-existing case law limitation of secondary liability to persons to having "knowledge" that induced acts infringed a patent.

The common law principles articulated in Sections 876(a) and (b) of the First Restatement generally parallel[6] the distinct liability rules that 35 U.S.C. § 271(b) and (c) prescribe. A person who "actively induces infringement of a patent" is subject to liability under § 271(b), irrespective of whether he does so "knowing" that the induced conduct constitutes patent infringement; whereas a person who is a passive supplier of materials to another is not liable for the other's infringement except in the circumstances specified in § 271(c), one of which is that the supplier

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Glaringly absent from Comcast et al.'s brief is any mention of the Court's *Leeds & Catlin* decisions, in which secondary liability was imposed despite the defendant's lack of "knowledge" that induced acts were infringing. Section 271 was designed, moreover, not to "codify" but to *overrule* the decision in *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944), insofar as the latter could be interpreted as precluding the type of secondary liability that this Court upheld in its *Leeds & Catlin* decisions. *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 203 (1980) ("the 1952 Act did include significant substantive changes, and . . . § 271 was one of them."). *See also id.* at 221 ("holders of 'new use' patents on chemical processes were among those designated to Congress as intended beneficiaries of the protection against contributory infringement that § 271 was designed to restore.")

Amici 41 Law, Economics, and Business Professors are also very wrong in asserting that "the common law origin of indirect infringement . . . requires that the defendant know that the behavior she aids is wrongful." 41 Prof. Br. at 2. The Amici Professors fail to cite any source of general common law to support that assertion. The First and Second Restatements of Torts both demonstrate that one who "induces" another's tortious acts is liable for resulting harm without regard for whether the inducer acted knowing that the induced acts were wrongful, *i.e.*, "constitute[d] a breach of duty."

[6] The concept of "actively induces" has been held to include "active steps . . . taken to encourage direct infringement . . . such as advertising an infringing use or instructing how to engage in an infringing use." *Grokster*, 545 U.S. at 936 (quotation omitted). The word "encouragement" can thus include some conduct that "induces" within the meaning of § 271(b).

acts "knowing" that the supported conduct breached a legal duty owed to a patentee.

III. THIS COURT'S DECISIONAL LAW ON INDUCEMENT LIABILITY DOES NOT REQUIRE KNOWLEDGE OF THE LAW.

A. Pre-1952 Decision Law.

Prior to the enactment of § 271(b) in 1952, this Court had clearly not required knowledge of the law as an element to prove inducement liability. *Leeds & Catlin No. 2* is illustrative. In that case, the patent-in-suit disclosed and claimed "[t]he method of reproducing sounds from a record of the same, which consists in vibrating a stylus and propelling the same along the record, substantially as described," and related "sound reproducing apparatus, consisting of a traveling tablet having a sound record framed thereon and a reproducing stylus shaped for engagement with said record . . . ." *Leeds & Catlin No 1*, 213 U.S. at 313-14. The patented apparatus was assembled, and the patented method was performed, when consumers played records on VICTOR record players that the respondent had sold.

Leeds & Catlin made and sold phonograph records. The patent-in-suit did not cover the making or selling of phonograph records as such, but the complainant showed that the petitioner's sales "were knowingly made to enable the owners of the Victor Talking Machines to reproduce such musical pieces as they wished by the combination of the Leeds & Catlin record with said machines," and "with the intent that [they] should be united to the other elements and complete the combination." *Leeds & Catlin No. 2*, 213 U.S. at 331-32 (quoting 154 F. at 59).

Notwithstanding Leeds & Catlin's reliance on advice of counsel (150 F. 147) and vigorous arguments that the complainant's patent had expired prior to the challenged sales occurring, *see Leeds & Catlin No. 1*, 213 U.S. at 314-25, and that the patentee's rights had furthermore been exhausted by prior authorized sales of the record players involved in consumers' alleged infringement, *see* 154 F. at 61-62 (Wallace, J. dissenting), this Court affirmed an in-

junction against the "sale of records for use in the Victor machine," which the Court characterized as "an entirely voluntary and intentional . . . contributory infringement." 213 U.S. at 337 (quoting 150 F. at 147). Leeds & Catlin's legal beliefs were simply irrelevant to whether, as a factual matter, it had actively induced owners of VICTOR record players to commit acts that infringed the complainant's patent.

B. Post-1952 Law: The Grokster Decision

"The rule on inducement of infringement as developed in the early cases is no different today." *Grokster,* 545 U.S. at 936. *Grokster* was a copyright case, but its reasoning drew from patent law and is fully applicable here.

At issue in *Grokster* was whether a distributor of a computer software product could be held liable for acts of copyright infringement committed by end users of the product, where the product was capable of both lawful use (*e.g.*, reproduction of public domain material) and unlawful use (e.g., reproduction of copyrighted music). The Court held: "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties." 545 U.S. at 919.

In the context of the *Grokster* holding, the phrase "promoting its use to infringe copyright" referred to a *type* of *use* (*i.e.*, reproduction of copyrighted, as distinct from public domain or licensed, material), not to a state of mind concerning the legality of the use. At issue in *Grokster* was the sufficiency of the petitioners' evidence to establish that the respondents promoted, encouraged, or otherwise actively induced end users of their software products to commit certain physical acts (i.e., downloading copyrighted music files), not the sufficiency of the evidence to establish the respondents' beliefs as to the legality of their own or end users' acts.

So here, the Petitioner in this case designed, made, and marketed finished products to United States retail distributors for importation and resale

in the United States. Like the respondents in *Grokster*, the Petitioner here "actively induce[d]" its vendees to engage in particular intended conduct -- importing and selling Petitioner's products -- that infringed Respondent's patent. Petitioner's causal responsibility for the infringing sales in this case is at least as great, if not greater, than was the causal responsibility that this Court found sufficient to support secondary liability in *Grokster*.

Petitioner's claimed ignorance of Respondent's patent is no more relevant here than were the unsuccessful arguments for non-liability put forward in *Grokster*. In the first place, the United States Patent and Trademark Office ("PTO") is statutorily required to "maintain, for use by the public, paper, microform, or electronic collections of United States patents," 35 U.S.C. § 41(i), and as this Court has held, "'[c]onstructive notice of their existence goes thus to all the world.'" *Sontag Chain Stores Co. v. Nat'l Nut Co.*, 310 U.S. 281, 295 (1940). The Petitioner here thus acted with "implied knowledge" of Respondent's patent (*id.*) even if, as Petitioner contended below, it lacked actual knowledge of that patent at relevant times.[7]

Equally importantly, as this Court has recently noted, "an act may be 'intentional' for purposes of civil liability, even if the actor lacked actual knowledge that her conduct violated the law." *Jerman*, 130 S. Ct. at 1612. This principle has long been applied to invasions of private property rights. *Id.* ("intentional tort of trespass can be committed despite the actor's mistaken belief that she has a legal right to enter the property") (citing *Restatement (Second) of Torts* § 164 (1965)).

Under § 271(b) and *Grokster*, the concept of "actively induces" focuses on what a person actively in-

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[7] 35 U.S.C. § 287(a) limits recovery of damages in certain circumstances where a patentee does not mark "patented article[s]" sold within the United States with the number of a United States patent protecting such "articles." The scope of § 287(a) is not at issue here.

duces another *to do*, not on what a person may believe as to the legal status of the induced acts. Having "actively induce[d]" its vendees to perform acts that ultimately were determined to infringe Respondent's patent, this Petitioner brought itself squarely within the plain language of § 271(b). Petitioner's claimed ignorance of Respondent's patent was irrelevant to Petitioner's liability under § 271(b), as was whether Petitioner's claimed ignorance of Respondent's patent resulted from a cause that might later be characterized as "deliberate indifference of a known risk," 594 F.3d at 1377, or some other cause.[8]

A person accused of having "actively induce[d] infringement of a patent," 35 U.S.C. § 271(b), can always defeat liability by demonstrating that the induced acts did not, in fact, infringe an asserted patent under 35 U.S.C. § 271(a). But if a person actively induces another to perform acts that do, in fact, constitute infringement under § 271(a), an injured patentee's right to relief is simply not dependent on proof that the inducer believed that the induced acts were infringing. *Cf. Leeds & Catlin No. 2*, 213 U.S. at 330-37 (imposing secondary liability notwithstanding contention that asserted patent expired prior to the complained of acts).

As between (i) a complainant who suffers loss from acts that 35 U.S.C. § 271(a) defines as patent infringement, and (ii) a defendant who actively induces the infringing acts but claims ignorance or mistake as to the legal status of those acts, 35 U.S.C. § 271 (b) clearly makes the inducer equally liable with the inducee for the patentee's injury. Neither § 271(a) nor § 271(b) conditions liability on a person knowing or believing that induced acts invade a patentee's legal rights.

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[8] The Federal Circuit appears to have borrowed the phrase "deliberate indifference," from the standard that governs whether a prison official is subject to liability for prison conditions that result in a violation of the Cruel and Unusual Punishments Clause of the Eighth Amendment. *See* 594 F.3d at 1376-77 (citing *Farmer v. Brennan*, 511 U.S. 825, 834 (1994)).

IV. IGNORANCE OR MISTAKE OF LAW IS NOT A DEFENSE TO LIABILITY UNDER § 271(b).

In urging reversal of the Federal Circuit's judgment in this case, Petitioner and its amici effectively ask this Court to endorse the erroneous holding of the Federal Circuit in *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006) (en banc). The Court should, instead, disapprove of the *DSU* decision and hold that ignorance or mistake of law is no defense to liability under 35 U.S.C. § 271(b), whatever might be the cause of such ignorance or mistake.

In *DSU*, a distributor of medical needles was held liable for patent infringement. The distributor had marketed and sold the accused products in the United States under and in accordance with a worldwide supply agreement that had been entered into outside the United States with the manufacturer of the needles. At issue in *DSU was* whether the manufacturing supplier had "actively induce[d]" its distributor's infringement.

Notwithstanding that the defendant manufacturing supplier admittedly knew and intended that its wholesale distributor would market and sell the accused needles in the United States, the Federal Circuit held that the manufacturer was rightly adjudged not to have "actively induce[d]" its vendee's infringement, because the manufacturer presented evidence that it allegedly harbored a belief — indeed, an erroneous belief — that its wholesale distributor's sales of the accused products in the United States would not, in law, amount to actionable patent infringement. *DSU*, 471 F.3d at 1306-07.

In reaching this unusual result, the Federal Circuit sought to follow and apply this Court's then-recent *Grokster* decision. In fact, the *DSU* decision rests on a serious misreading of *Grokster*. As described in Part III.B, above, nothing in *Grokster* holds or suggests that ignorance or mistake of law is a defense to liability under § 271(b). Still less does *Grokster* hold, as Petitioner and its amici wrongly urge, that § 271 (b) purportedly obligates a patentee to prove, as part of its case-in-chief, that an inducer

was *free* of ignorance or mistake concerning the legal status of induced acts.

In the decision below, a Federal Circuit panel attempted to constrain the enormous legal loophole that the *DSU* decision created. While adhering to the view that ignorance of a patent was a defense to liability under § 271(b), the panel below held that the defense was unavailable if an inducer "deliberately disregarded a known risk." 594 F.3d at 1377 (citing *Farmer v. Brennan*, 511 U.S. 825 (1994)). Although this "deliberately disregarded" standard led to the correct result in this particular case, it rests on an erroneous premise, namely, that ignorance or mistake of law is a defense to liability under § 271(b). It is not.

It is well settled that "an act may be 'intentional' for purposes of civil liability, even if the actor lacked actual knowledge that her conduct violated the law." *Jerman*, 130 S. Ct. at 1612. It is equally well settled that "ignorance of the law will not excuse any person, either civilly or criminally.'" *id.* at 1605 (quoting *Barlow*, 32 U.S. (7 Pet.) at 411 (Story, J.)). *See Aro II*, 377 U.S. at 484 (unauthorized use, without more, constitutes infringement" under § 271(a)); *Union Naval Stores Co. v. United States*, 240 U.S. 284, 290 (1916) (person who conducted unauthorized turpentining operations on land, under mistaken belief in his right to do so, was "willful trespasser" who "acted with full notice of the facts, and his mistake of law cannot excuse him.").

Ignorance or mistake of law is generally not recognized as a defense to civil or criminal liability, in part because of "the extreme difficulty of ascertaining what is, bona fide, the interpretation of the party." *Id.* at 1623 (quoting *Barlow*, 32 U.S. (7 Pet.) at 411). "There is scarcely any law which does not admit of some ingenious doubt." *Barlow*, 32 U.S. (7 Pet.) at 411. This observation has special force in patent cases, which typically involve "legal conclusion[s]" that are "predicated on factors as to which reasonable men can differ widely." *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969). *See also* John Austin, *Jurisprudence* 498 (1879) ("if ignorance of law were admitted as a ground of exemption, the Courts would

be involved in questions which it were scarcely possible to solve. . . .").

This Court has held that "§ 271(a) of the new Patent Code, which defines 'infringement,' left intact the entire body of case law on direct infringement." *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 342 (1961) (*"Aro I"*). *Accord Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 26 (1997) ("In the context of infringement, we have already held that pre-1952 precedent survived the passage of the 1952 Act."). Determining whether a patent excludes particular activity is often a complex and contentious process. This Court has noted:

> A tract of land is easily determined by survey. Not so the scope of a patent right for an invention.
>
> As between the owner of a patent and the public the scope of the right of exclusion granted is to be determined in light of the state of the art at the time of the invention.

Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co., 266 U.S. 342, 350 (1924) (Taft, C.J.). "The state of the art at the time of the invention," *id.*, is also a factual predicate in all inquiries into the validity of an issued patent claim under 35 U.S.C. § 103. *See KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 406 (2007)("Under § 103, the scope and content of the prior art are to be determined") (quoting *Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966)).

To interpret § 271(b) as requiring knowledge of patent law requirements is inevitably to invite costly and typically futile litigation over an inducer's subjective legal knowledge or opinions. *Cf. Jerman*, 130 S. Ct. at 1623 ("The dissent's reading also invites litigation about a debt collector's subjective intent to violate the FDCPA"). The *DSU* decision has, in practice, generated much litigation concerning "opinion-of-counsel evidence," *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 699 (Fed. Cir. 2008), and has tended to subordinate the objective merits of infringement claims and defenses to litigation gamesmanship and arguments over whether "failure to

procure such advice" is properly considered "circumstantial evidence of intent to infringe" in a given case. *Id.*

To interpret § 271(b) as requiring knowledge of patent law requirements is also to create an enormous potential legal loophole and to prefer ignorance and error over the rights of persons whose *valid* patents have been *infringed*. There is almost no case in which a person accused of patent infringement cannot claim that they *did not know* that their actions caused or induced infringement of a patent. *Cf Jerman*, 130 S. Ct. at 1623 ("Under that approach, it appears, nonlawyer debt collectors could obtain blanket immunity for mistaken interpretations of the FDCPA simply by seeking the advice of legal counsel.").

Neither the Federal Circuit rule applied below, nor the even more extreme legal loophole advocated by Petitioner and its amici, has any basis in the text of the Patent Act, this Court's precedents, or common law principles. And as this Court recently held in *Jerman*, only very clear statutory language will be interpreted as overcoming the principle that ignorance or mistake of law is not a defense to civil or indeed criminal liability for conduct that actually violates a person's rights. 130 S. Ct. at 1612 ("when Congress has intended to provide a mistake-of-law defense to civil liability, it has often done so more explicitly than here"); *id.* at 1613 ("Congress also did not confine liability under FDCPA to 'willful' violations, a term more often understood in the civil context to excuse mistakes of law").[9]

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[9] In *Jerman*, the Court construed a provision of the federal Fair Debt Collection Practices Act ("FDCPA"), which prohibits certain debt collection practices but provides for non-liability if a violation "was not intentional and resulted from a bona fide error. . . ." 130 S. Ct. at 1608 (quoting 15 U.S.C. § 1692k(c)). At issue in *Jerman* was whether a law firm that intentionally engaged in certain debt collection activities, but did so under a mistaken belief that its conduct was not prohibited by the FDCPA, could claim the benefit of the "bona fide error" defense. This Court held that "the bona fide error defense in § 1692k(d)

Suppliers, manufacturers, and distributors can provide, as amongst themselves, for indemnification, insurance, or other provisions to address the risk that conduct by one or more of them will be found by a court to have caused infringement of a valid patent. But when a valid patent is infringed by unauthorized sales of products embodying the patented invention, 35 U.S.C. § 271(b) clearly contemplates that recovery may be had against any person who "actively induces" the conduct that causes the injury. A person's beliefs as to the legal status of induced acts has no bearing on the injury and damage the induced acts cause and cannot rightly or fairly be held to limit a patentee's statutory rights.

Interpreting § 271(b) as focused on injury-causing acts, rather than litigants' claimed legal beliefs, focuses the liability inquiry where it belongs: on objective technical facts – whether the actively induced conduct does or does not infringe a patent. This interpretation would improve certainty and stability in the law, and be faithful to Congress's clear intent in enacting § 271(b).

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does not apply to a violation of the FDCPA resulting from a debt collector's incorrect interpretation of the requirements of that statute." 130 S. Ct. at 1624.

CONCLUSION

For the reasons set forth above, the judgment below should be affirmed, but on the fundamental ground that a person's claimed ignorance or mistake as to the legal status of actively induced acts is irrelevant to the existence of liability under 35 U.S.C. § 271(b).

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AMICUS CURIAE BRIEF

No. 10-06

In the Supreme Court of the United States

GLOBAL-TECH APPLIANCES, INC., ET AL.
Petitioners,

v.

SEB, S.A.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF LAW PROFESSORS, AS *AMICI CURIAE,* IN SUPPORT OF RESPONDENT

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INTEREST OF AMICI CURIAE[1]

Amici are professors who teach and write about patent law at law schools and universities throughout the United States. A complete list of signatories is attached as Appendix A. We would like patent law to develop in a way that robustly encourages innovation.

SUMMARY OF ARGUMENT[2]

The Patent Act of 1952 provides at 35 U.S.C. § 271(b) that "[w]hoever actively induces infringement of a patent shall be liable as an infringer." This provision codified long-standing precedent deriving from tort law that those who aid and abet direct patent infringement shall be liable for indirect infringement.

Opinions from this Court and lower courts from the mid-19th century through the passage of the 1952 Act repeatedly held that aiding and abetting direct patent infringement solely required *specific intent* merely to further the *acts* that constituted direct infringement. Other than a few lines of aberrant dicta, this Court and others never required knowledge by the aider and abettor that he was

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[1] *Amici* have no financial interest in the outcome of this case. No counsel for a party authored this brief in whole or in part, and no persons other than *amici* made a monetary contribution to its preparation or submission. Pursuant to Rule 37.3, copies of consent letters have already been filed with the Clerk by both parties to the case.

[2] For a more detailed version of the arguments presented here, see Ted Sichelman, *Minding Patent Infringement*, *available at* http://ssrn.com/abstract=1734380.

assisting in the breach of a legal duty (i.e., infringement of a known patent). As a late 19th century article canvassing the case law succinctly stated: "If he intentionally contributed to the act, which the Court holds to be an infringement of the patent, he is [an indirect] infringer, and his actual lack of knowledge of the patent will not excuse him."[3] This view persisted through the first half of the 20th century and was black-letter law at the time of the passage of the 1952 Patent Act.

Congress intended to codify this long-standing scienter standard when it enacted Section 271(b). Unfortunately, this section's key phrase—"actively induces infringement"—is not clear on its face, as evidenced by the Federal Circuit's acknowledgment of as much in its en banc decision in *DSU Medical*.[4] Specifically, this phrase does not readily convey whether "infringement" refers simply to "acts *that happen to be infringing*" or rather to "acts that *the actor knows or should know are infringing*."

Moreover, this Court's recitation of the inducement standard in *Grokster*[5]—which stated that Section 271(b) requires a "showing that infringement was encouraged"—suffers from the same ambiguity. Because Congress intended to

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[3] *See* Hubert Howson, *Contributory Infringement of Patents*, Electrical Engineer, Vol. 19, No. 355, pp. 174-75 (Feb. 20, 1895), *available at* Google Books, http://books.google.com/books?id=UbymAAAAMAAJ&dq=Howson%2C%20contributory%20infringement%20patents&pg=PA174#v=onepage&q=Howson,%20contributory%20infringement%20patents&f=false.

[4] *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006) (en banc in relevant part).

[5] *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

adopt the historical scienter standard—which did not require knowledge of the patent—when it enacted the 1952 Act, the relevant language of Section 271(b) should be interpreted as "actively induces those acts *that happen to constitute infringement, regardless of the actor's knowledge of such.*"

Moreover, unlike contributory infringement under Section 271(c)—which contains specific verbiage this Court read in *Aro II* (1964) to mandate a deviation from historical practice—nothing in the language of Section 271(b) points towards any standard other than the one applied historically before the Patent Act of 1952. Nor does such a reading of Section 271(b) render Section 271(c) superfluous. Specifically, Section 271(b) expressly requires *specific intent* on the part of the indirect infringer to encourage the acts of the direct infringer, while Section 271(c) does not.

So, on the one hand, we agree with Petitioners that "'purposeful, culpable expression and conduct' to encourage an infringement" is required for a finding of inducing infringement. Pet. Br. 14 (quoting *Grokster*, 545 U.S. at 936-37). On the other hand, this requirement merely refers to the "purposeful, culpable ... conduct"—that is, the *specific intent*—of the aider and abettor in encouraging *the acts* constituting direct infringement. Thus, like the Federal Circuit in *DSU Medical*, Petitioners misread *Grokster* when they go one step further to infer that a finding of inducement requires actual knowledge of the patent-at-issue. Pet Br. 14. Rather, the language of Section 271(b), the legislative history of the 1952 Act, and this Court's own precedent preclude any such prerequisite to a finding of inducement.

Importantly, this result is sensible as a policy matter. First, it places system and method patent claims on more equal footing. Specifically, system claim suits are usually direct infringement actions brought against a patent holder's *competitors*, while method claim suits frequently lie as direct infringement actions solely against *customers and end-users*, which patent holders are generally averse to sue, or simply cannot sue as a practical matter. In effect, for method patent infringement, patent holders must often sue direct competitors only under a theory of indirect infringement. Eliminating knowledge of the patent as a threshold requirement for inducement thereby diminishes institutional bias in favor of product over process innovations.

Second, the approach advocated here eliminates a strategy of "willful blindness," whereby potential indirect infringers forgo searching for patents prior to undertaking their potentially infringing behavior—even when it is not costly to do so—to avoid charges of indirect infringement.

Third, for those infringers that are aware of patents prior to infringement, it ends the self-serving and generally meaningless "opinion of counsel" defense strategy, whereby outside counsel immunize indirect infringers by writing conclusory—but usually outcome-determinative—letters stating that the patent-at-issue is not infringed, invalid, or unenforceable.

For these reasons, this Court should find that knowledge of the patent is not an element of inducing infringement under Section 271(b).

ARGUMENT

I. HISTORICALLY, INDIRECT INFRINGEMENT MERELY REQUIRED SPECIFIC INTENT, BUT NOT KNOWLEDGE OF THE PATENT

Historically, indirect infringement was modeled on the tort law notion of aiding and abetting, which requires "specific intent" on the part of the aider and abettor to encourage the acts of the direct tortfeasor. *See, e.g.*, *Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988) (finding liability for inducement inheres where one "actively and knowingly aid[s] and abet[s] another's direct infringement") (emphasis deleted) (cited with approval in *Grokster*, 545 U.S. at 936).

This part of the brief first succinctly describes the various types of scienter in tort law, and how they map onto patent law. *See, e.g.*, *Carbice Corp. v. Am. Patents Corp.*, 283 U.S. 27, 33 (1931) ("Infringement, whether direct or contributory, is essentially a tort, and implies invasion of some right of the patentee."). Next, directly contrary to the erroneous assertion made by our fellow professors in Brief for 41 Law, Economics, and Business Professors in Support of Petitioner (at 2-3), this part recounts in detail the relevant pre-1952 opinions, which—other than a few lines of aberrant dicta—did not require any knowledge of the legal duty (i.e., the patent) being infringed for a finding of specific intent.

A. Levels of Scienter in Tort and Patent Law

1. Strict Liability

Strict liability torts have no scienter requirement. *See, e.g., Dalehite v. United States*, 346 U.S. 15, 44 (1953). In patent law, *direct* infringement is a strict liability offense in that intent, knowledge, and even negligence are irrelevant to liability. *See Sontag Chain Stores Co. v. National Nut Co.*, 310 U.S. 281, 295 (1940). As such, scienter only plays a role in patent infringement when considering *indirect* and *willful* infringement.

2. Negligence, Recklessness & Knowledge

"Negligence is any conduct, except conduct recklessly disregardful of an interest of others, which falls below the standard established by law for the protection of others against unreasonable risk of harm." Restatement (First) of Torts § 282 (1934). Negligence does not play an immediate role in indirect infringement; however, as described below, it plays a secondary role via constructive knowledge.[6]

The First Restatement of Torts defines "recklessness" as the "disregard of the safety of another if [an actor] intentionally does an act or fails to do an act which it is his duty to the other to do, knowing or having reason to know of facts which

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[6] The Federal Circuit has made clear that negligence is no longer sufficient for a finding of willful infringement. *See In re Seagate*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc).

would lead a reasonable man to realize that the actor's conduct not only creates an unreasonable risk ... to the other but also involves a high degree of probability that substantial harm will result to him." Restatement (First) of Torts § 500 (1934). Recklessness plays a role in determining willful infringement, *see In re Seagate, supra*, 497 F.3d at 1370-72, but historically has not been an element of indirect infringement, *see* Chisum on Patents, § 17.04[2] (2010).

However, knowledge (including constructive knowledge) plays role in assessing contributory infringement under Section 271(c), which states in relevant part:

> Whoever offers to sell or sells within the United States ... a component of a patented machine, manufacture, combination or composition ... constituting a material part of the invention, *knowing the same to be especially made or especially adapted for use in an infringement of such patent*, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

35 U.S.C. § 271(c) (emphasis added).

In *DSU*, the Federal Circuit held actual or constructive knowledge of the patent-at-issue is also required to satisfy scienter requirements under Section 271(b). *See, e.g., DSU Medical, supra*, 471 F.3d at 1306. In this case, the Federal Circuit elaborated upon the constructive knowledge prong, adopting a "deliberate indifference of a known risk" standard. *SEB S.A. v. Montgomery Ward & Co., Inc.*,

594 F.3d 1360, 1377 (Fed. Cir. 2010).

However, whether and to what extent knowledge plays any role for inducing infringement under Section 271(b) has never been decided by this Court.

3. Intent

Intent tends to come in two flavors—general intent and specific intent. These concepts are aptly illustrated by a driver of a getaway car in a bank robbery hypothetical. If the getaway car driver has the intent to drive the car *per se*, which coincidentally happens to harbor the bank robber, then in legal terminology, the driver has "general intent" to commit the underlying act that aids and abets the bank robber. *See, e.g., Carter v. United States*, 530 U.S. 255, 268 (2000); *Times-Picayune Pub. Co. v. United States*, 345 U.S. 594, 626 (1953).

However, aiding and abetting a bank robbery requires more than general intent. Otherwise, a taxi driver that happens to pick up a bank robber as the robber leaves the scene would be liable for aiding and abetting. Rather, the driver must have "specific intent" to further the bank robber's actions by intentionally assisting the robber's escape. *See, e.g., State v. Jackson*, 344 So.2d 961 (La. 1977).

That is, the driver must know of and intend to assist the bank robber in *the act* of taking money from the bank. *See Carter*, 530 U.S. at 268 ("Though this defendant knowingly engaged in the acts of using force and taking money (satisfying 'general intent'), he did not intend permanently to deprive the bank of its possession of the money (failing to satisfy 'specific intent')."); *Nye & Nissen v. United States*, 336 U.S. 613, 619 (1949) ("The trial court

charged that one 'who aids, abets, counsels, commands, induces, or procures *the commission of an act* is as responsible for that act as if he committed it directly.' That theory is well engrained in the law.") (emphasis added); Restatement (First) of Torts § 876 (1939).

In this regard, it is a truism of tort and criminal law that "ignorance of the law is no excuse." *See Barlow v. United States*, 32 U.S. 404, 411 (1833) (cited with approval in *Jerman v. Carlisle, McNellie, Rini, Kramer & Ulrich LPA*, 130 S. Ct. 1605, 1612 (2010)).

In other words, the common law does not require that the aider and abettor know (or even constructively know) that the bank robber *is breaking the law*. Rather, as long as the aider and abettor intended to assist in acts *that happen to violate a criminal or civil duty*, liability for aiding and abetting will lie (assuming the other elements of the tort or crime are met). *See* Restatement (First) of Torts § 876(a) (1939) ("For harm resulting to a third person from the tortious conduct of another, a person is liable if he ... orders or induces such conduct, knowing of the conditions under which the act is done or intending the consequences which ensue.").[7]

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[7] Liability will also lie in tort when the aider and abettor knows that he is assisting the direct tortfeasor in the breach of legal duty—however, such knowledge, while sufficient for a scienter finding, is not necessary. *See* Restatement (First) of Torts § 876(b) (1939). Thus, statements such that "the common law origin of indirect infringement in accessory liability, which requires that the defendant know that the behavior she aids is wrongful," Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. Davis L. Rev. 225, 236 (2005), mistakenly confuse what is merely *sufficient* for what is *necessary* for a finding of secondary liability under the common law.

Other than one line of aberrant dicta, prior to the adoption of the Patent Act of 1952, this Court had always used the traditional standard of specific intent from tort and criminal law as the appropriate level of scienter for indirect patent infringement. *See infra* Section I.B. Thus, pre-1952 precedent from this Court has not required knowledge of the patent to satisfy scienter for indirect infringement.

4. Willfulness

Willfulness in the punitive context—which is how it applies in patent law—usually requires knowledge on the part of the actor of the legal duty otherwise being violated. *See, e.g., United States v. Bishop*, 412 U.S. 346, 360 (1973) ("The Court ... has recognized that the word 'willfully' in these statutes generally connotes a voluntary, intentional violation of a *known legal duty*.") (emphasis added).

Indeed, in patent law, willfulness requires knowledge of the patent itself, i.e., of the source of the legal duty, on the part of the accused infringer. *See, e.g., State Industries, Inc. v. A.O. Smith Corp.*, 751 F.2d 1226, 1236 (1985) ("To willfully infringe *a patent*, the patent must exist and one must have knowledge of it.").

Thus, it is important to distinguish willful patent infringement, which has always required knowledge of the patent, from indirect infringement, which did not.

B. The Historical Doctrine of Indirect Infringement Mirrors Tort Law and Only Requires Specific Intent to Encourage Acts That Happen to Be Directly Infringing

Early cases in this Court held that the manufacture, sale, or use of some—but not all—of the parts of a combination patent does not constitute infringement. *See, e.g.*, *Prouty v. Draper, Ruggles & Co.*, 41 U.S. 336, 341 (1842) ("The use of any two of these [three patented] parts only ... is, therefore, not the thing patented."); *see also Eames v. Godfrey*, 68 U.S. 78, 80 (1863).

In *Wallace v. Holmes*, 29 F. Cas. 74 (C.C. Conn. 1871), a lower court adopted for the first time in American jurisprudence the general doctrine of "indirect" (or as it was called until 1952, "contributory") infringement. The patent concerned an improved lamp, which consisted of a multitude of components, including a "glass chimney" and a "burner." *Id.* at 79. However, the accused infringers manufactured and sold only the burners, but not the chimneys, and argued under the rule of *Prouty* and *Eames* that they should not be liable for infringement, because they "sold only some of the parts included in the patented combination." *Id.*

Yet the *Wallace* court rejected the proffered defense. *Id.* at 79-80. Specifically, it noted that the defendants "have exhibited their burner furnished with a chimney, using it in their sales room, to recommend it to customers, and prove its superiority, and, therefore, as a means of inducing the unlawful use of the complainants' invention." *Id.*

at 80. Drawing on principles from the common law of torts, the court found that the defendants "have done this for the express purpose of assisting, and making profit by assisting, in a gross infringement of the complainants' patent." *Id.* at 79-80; *see also id.* at 81 ("In such case, all are tort-feasors, engaged in a common purpose to infringe the patent, and actually, by their concerted action, producing that result.").

Without allowing for contributory infringement, the court recognized that the patentee "would be driven to the task of searching out the individual purchasers for use who actually place the chimney on the burner and use it—a consequence which, considering the small value of each separate lamp, and the trouble and expense of prosecution, would make the complainants helpless and remediless." *Id.*

Although the *Wallace* court's test might casually be read to require knowledge of the patent, the court held that scienter turned on the "certain knowledge that such burners are to be used, as they can only be used, by the addition of a chimney." *Id.* Thus, the *Wallace* decision—which is the progenitor of all indirect infringement opinions and has been cited with approval several times by this Court, *see infra*—emphatically did not require any knowledge of the patent for a finding of indirect infringement. *See Dawson Chemical Co. v. Rohm and Haas Co.*, 448 U.S. 176, 188 (1980) ("Yet the court [in *Wallace*] held that there had been 'palpable interference' with the patentee's legal rights, because purchasers would be certain to complete the combination, and hence the infringement, by adding the glass chimney."); Odin B. Roberts, *Contributory Infringement of Patent Rights*, 12 Harv. L. Rev. 35, 37 (1898) ("The act was found to be wrongful because

of the obvious intent of the defendants to make the burner for use only with another thing which the user was to supply.").

About a decade after *Wallace v. Holmes*, in *American Cotton-Tie Co. v. Simmons*, 106 U.S. 89 (1882), this Court relied on two lower court opinions that implemented the *Wallace* rule to find that the sale of a component used in an infringing combination constitutes infringement when "the defendants prepare and sell the [component] . . . intending to have it used . . . to produce the results set forth in the [asserted] patents . . . ." *Id.* at 95.

Importantly, consistent with the common law of torts, this Court merely required *specific intent* on the part of the alleged infringer that the component be used in the combination *that happened to be infringing*, but not that the alleged indirect infringer know of the patent covering the component. *See id.* Specifically, this Court wrote regarding the sale of a tie (the patented component) for use in baled cotton (the patented product):

> They [i.e., the accused infringers] sell the tie having the capacity of use in the manner described, and intended to be so used. Only the bale of cotton and the press are needed to produce the result set forth in the specifications of the patents, and without the bale of cotton and the press the tie would not be made or sold. ... and, although a person who merely makes and sells the buckle or link in each case may be liable for infringing those patents, he is so liable only as he is regarded as doing what he does *with the purpose of having the buckle or link combined with a band and used to bale*

cotton.

Id. at 94-95 (emphasis added).[8] In other words, in *American Cotton-Tie*, this Court merely focused on the indirect infringers' specific intent with respect to the direct infringer's acts.

In *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*, 152 U.S. 425 (1894), this Court cited *Wallace v. Holmes* and other cases for the proposition that "the manufacture and sale of a single element of a combination, with intent that it shall be united to the other elements, and so complete the combination, is an infringement." *Id.* at 433. Importantly, this Court again held that specific intent as to the direct infringer's *act* to combine the component with other elements so as to create a combination (that happened to be patented) was the relevant scienter inquiry—and not whether the alleged contributory infringer knew it was aiding infringement *per se*, i.e., had knowledge of the patent-in-suit.[9]

In the following years, numerous lower court cases cited to the rule of *Wallace v. Holmes*, and this Court's adoption of it in *American Cotton-Tie* and *Morgan Envelope*.[10] Nearly all of these lower court

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[8] *See also id.* ("Because the defendants prepare and sell the arrow tie, composed of the buckle or link and the band, intending to have it used to bale cotton and to produce *the results* set forth in the Cook and the McComb patents, they infringe those patents.") (emphasis added).

[9] The Court ultimately held in *Morgan Envelope* that contributory infringement did not apply "where the element made by the alleged infringer is an article of manufacture perishable in its nature." 152 U.S. at 433.

[10] *See, e.g., Saxe v. Hammond*, *supra*; *Bowker v. Dows*, *supra*; *Renwick v. Pond*, 20 F. 536 (C.C.N.Y. 1872); *Richardson v.*

cases adhered to the established rule that the scienter required for indirect infringement is specific intent with respect to the direct infringer's acts, but not knowledge of the patent-at-issue.[11]

In this regard, the *Thomson-Houston* line of cases are of particular note. In *Thomson-Houston Elec. Co. v. Kelsey Elec. Railway Specialty Co.*, 72 F. 1016 (C.C. Conn. 1896) (*Thomson-Houston I*), the court quoted from *Wallace v. Holmes* and a number of other post-*Wallace* cases for the proposition that the sale of components "which are useful only for the purpose of performing functions involved in the operation of the patent ... raises a presumption that [the accused infringers] intend their [components]

Noyes, 20 F. Cas. 723 (C.C. Mass. 1876); *Rumford Chemical Works v. Hecker*, 20 F. 1342 (C.C.N.J. 1876); *Holly v. Machine Co.*, 4 F. 74 (C.C. Vt. 1880); *Travers v. Beyer*, 26 F. 450 (C.C.N.Y. 1886); *Alabastine Co. v. Payne*, 27 F. 559 (C.C.N.Y. 1886); *Snyder v. Bunnell*, 29 F. 47 (C.C.N.Y. 1886); *Celluloid Manuf'g Co. v. American Zylonite Co.*, 30 F. 437 (C.C.N.Y. 1887); *Thomson-Houston Elec. Co. v. Kelsey Elec. Railway Specialty Co., infra*; *Thomson-Houston Electric Co. v. Ohio Brass Co., infra*; *Boyd v. Cherry*, 50 F. 279 (D. Iowa 1883); *Heaton Peninsular Button Fastener Co. v. Eureka Specialty Co.*, 77 F. 288 (6th Cir. 1896); *Shickle, Harrison & Howard Iron Co. v. St. Louis Car-Coupler Co.*, 77 F. 739, 743 (8th Cir. 1896); *Red Jacket Mfg. Co. v. Davis*, 82 F. 432, 439 (7th Cir. 1897); *American Graphophone Co. v. Leeds*, 87 F. 873 (S.D.N.Y. 1898); *Loew Filter Co. v. German American Filter Co.*, 107 F. 949 (6th Cir. 1901); *Canda v. Michigan Malleable Iron Co.*, 124 F. 486, 489 (6th Cir. 1903); *James Heekin Co. v. Baker*, 138 F. 63, 66 (8th Cir. 1905) (Van Devanter, Circuit Judge).

[11] *See supra* note 10 (citing cases). The only exception we could locate is *Tubular Rivet & Stud Co. v. O'Brien*, 93 F. 200 (D. Mass. 1898), which misread some of the opinions cited earlier to incorrectly find "that a necessary condition of the defendant's guilt is his knowledge of the complainant's patent." *Id.* at 202-05.

should be so used." *Id.* at 1018.

In an article cited in *Thomson-Houston I* reviewing many of the 19th century cases, the author confirmed that intent as to the direct infringer's acts, not knowledge of the patent-in-suit, was the relevant concern of the scienter standard of contributory infringement:

> The principle [of contributory infringement] requires an intention on the part of the defendant to participate *in the act* which constitutes the infringement. *By this it is not meant that the party must have known of the patent and intended to infringe it.* If he intentionally contributed to *the act*, which the Court holds to be an infringement of the patent, he is an infringer, and his actual lack of knowledge of the patent will not excuse him. The publication of patents is assumed in law to be sufficient notice to the public of their existence.

Howson, *supra* note 3, at 175 (emphasis added in part). Similarly, one of the leading patent law treatises of the late 19th century stated, "To make or sell a single element, with the intent that it shall be united to the other elements, and so complete the combination, is infringement." William Callyhan Robinson, The Law of Patents for Useful Inventions, Vol. 3, at 101 (1890).

In *Thomson-Houston Elec. Co. v. Ohio Brass Co.*, 80 F. 712 (6th Cir. 1897) (*Thomson-Houston II*)—which was written by then-Circuit Judge William Howard Taft and has been quoted with approval by this Court. *see Aro II*, 377 U.S. at 487—the Sixth

Circuit arrived at the same conclusion as *Thomson-Houston I* regarding the appropriate scienter standard:

> [W]here one makes and sells one element of a combination covered by a patent with the *intention and for the purpose of bringing about its use in such a combination* he is guilty of contributory infringement and is equally liable to the patentee with him who in fact organizes the complete combination.

Thomson-Houston II, 80 F.2d at 721 (emphasis added).

In *Cortelyou v. Johnson & Co.*, 207 U.S. 196 (1907), this Court briefly addressed a claim of indirect infringement and inducement of breach of contract for the sale of ink for use with a patented machine, the "Neostyle," which by the terms of its sale was to be used with the seller's ink. *See id.* at 198-99. In dismissing the claims, this Court wrote:

> True, the defendant filled a few orders for ink to be used on a rotary Neostyle, but it does not appear that it ever solicited an order for ink to be so used, that it was ever notified by the plaintiffs of the rights which they claimed, or that anything which it did was considered by them an infringement upon those rights. Further, none of the chief executive officers of the company had knowledge of the special character of the rotary Neostyle machine or the restrictions on the purchase of supplies.

Id. at 200-201.

Here, some amici interpret the Court's argument regarding notification "by the plaintiffs of the [patent] rights" as requiring knowledge of the patent for indirect infringement. *See, e.g.*, Brief of Comcast Corp., et al, as Amici Curiae in Support of Petitioner, at 14. However, this interpretation is unsubstantiated. First, the accused infringers also had no "knowledge of the special character of the rotary Neostyle machine," which is the essential scienter element for indirect infringement. In this regard, if the patentee had put the accused infringers on direct notice of the patent, then they would have had such knowledge. Thus, while knowledge of the patent may be *sufficient* to meet the scienter requirement, it is not *necessary*. *Cf.* Restatement (First) of Torts § 876(b) (1939) (stating that knowledge of the legal duty binding the direct tortfeasor is sufficient, but not necessary, for a finding of scienter on the part of the indirect tortfeasor).

Second, knowledge of the patent would be relevant for a finding of inducement of breach of contract. Because the Court did not separately address each claim in the quoted passage, it could have simply been referring to the contract claim in its discussion of "the [patent] rights." Thus, *Cortelyou* should not be read as endorsing any sort of knowledge-of-the-patent requirement.

In *Leeds & Catlin Co. v. Victor Talking Mach. Co.*, 213 U.S. 325 (1909), the Court found Leeds liable for contributory infringement for selling a component of Victor's patented invention to Victor's customers (namely, a record for use in Victor's patented machine). Although the Court only briefly remarked upon the scienter requirements for

contributory infringement, its discussion in no manner deviated from earlier doctrine that knowledge of the patent is not such a requirement. *See id.* at 332-34 (discussing knowledge and intent with respect to the end-use of Leeds' records in the patented machines, but never considering whether Leeds had knowledge of the patent-at-issue); *id.* at 337 ("Petitioner was found guilty of selling records which constituted an element in the combination of the patent in suit, and for that petitioner was punished.").

This Court next addressed the rule in *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), *overruled on other grounds by Motion Picture Co. v. Universal Film Co.*, 243 U.S. 502 (1917).[12] Contrary to its prior holdings, the Court stated in *A.B. Dick without citation* that "if the defendants [accused of contributory infringement] *knew of the patent* and that [the direct infringer] had unlawfully made the patented article ... with the intent and purpose that [the direct infringer] should use the infringing article ... they would assist in her infringing use." *Id.* at 33-34 (emphasis added).

This is the only statement by this Court—or any lower courts cited with approval by this Court—that knowledge of the patent is a pre-requisite to a finding of indirect infringement. However, in *A.B. Dick*, the knowledge requirement was not in dispute, and this Court provided no analysis to support its contention. Indeed, the Court went on to cite *Thomson-Houston I*, *see id.*, which as noted earlier,

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[12] Just one year earlier, this Court briefly addressed contributory infringement in the context of copyright law. *See Kalem Co. v. Harper Bros.*, 222 U.S. 55, 63 (1911) (citing *Morgan-Envelope* with approval).

did not require knowledge of the patent to support a finding of indirect infringement.[13]

Rather, the *A.B. Dick* court appeared to misread the use of the phrase "patented invention" in *Thomson-Houston I* as requiring knowledge of the patent. *See id.* Thus, the statement in *A.B. Dick* should be viewed as one line of aberrant and unsupported dicta in a sea of otherwise consistent holdings from this Court. Indeed, following *A.B. Dick*, lower courts continued to hold that knowledge of the patent was not a requirement for indirect infringement (and it does not appear any court followed the mistaken dicta in *A.B. Dick*).[14]

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[13] The Court also cited a number of other cases approvingly in *A.B. Dick*, none of which adopted a knowledge-of-patent requirement. *See* 224 U.S. at 33-34 (citing *Wallace v. Holmes*, *Risdon Iron & Locomotive Works v. Trent*, *Thomson-Houston Electric Co. v. Ohio Brass Co.*, and *American Graphophone Co. v. Hawthorne*).

[14] *See, e.g.*, *New York Scaffolding Company v. Whitney*, 224 F. 452, 459 (8th Cir. 1915); *Safety Car Heating & Lighting Co. v. Gould Coupler Co.*, 229 F. 429 (D.N.Y. 1916); *Individual Drinking Cup Co. v. Errett*, 300 F. 955 (D.N.Y. 1916) (Learned Hand, J.); *Wilson v. Union Tool Co.*, 265 F. 669, 672 (9th Cit. 1920); *Individual Drinking Cup Co. v. Errett*, 297 F. 733 (2d Cir. 1924); *Lenk v. Hunt-Lasher Co.*, 14 F.2d 335, 337 (D. Mass. 1926); *Westinghouse, etc., Co. v. Precise, etc., Co.*, 11 F.2d 209 (2d Cir. 1926); *Electro Bleaching Gas Co. v. Paradon Engineering Co.*, 12 F.2d 511, 513 (2d Cir. 1926); *Bassick Mfg. Co. v. Ready Auto Supply Co.*, 22 F.2d 331 (D.N.Y. 1927); *National Brake & Elec. Co. v. Christensen*, 38 F.2d 721, 723 (7th Cir. 1930); *Trico Products Corp. v. Apco-Mossberg Corp.*, 45 F.2d 594 (1st Cir. 1930); *American Voting Mach. Corporation v. City of New York*, 2 F. Supp. 191, 192 (S.D.N.Y. 1933); *Chas. H. Lilly Co. v. I.F. Laucks, Inc.*, 68 F.2d 175 (9th 1933); *Autographic Register Co. v. Sturgis Register Co.*, 110 F.2d 883, 885 (6th Cir. 1940). *See generally* 3 Walker, Patents, at 1764-1765 (Deller ed. 1937) (citing cases).

Following *A.B. Dick*, in a line of cases culminating with *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944),[15] this Court effectively narrowed the applicability of indirect infringement by holding that the sale of unpatented material cannot constitute contributory infringement, even "where the unpatented material or device is itself an integral part of the structure embodying the patent," because to allow as much would run afoul of the antitrust laws. *Id.* at 665-66.

II. CONGRESS DID NOT ALTER THE HISTORICAL PRECEDENT REGARDING SCIENTER IN ENACTING SECTION 271(B) OF THE PATENT ACT OF 1952

Following this Court's decision in *Mercoid*, as part of the Patent Act of 1952, Congress decided to reinstate the law of indirect infringement by codifying precedent as it existed prior to *Mercoid*. This section discusses that codification and shows that—in enacting the inducement provision of Section 271(b)—Congress did not intend to deviate from the historical practice that knowledge of the patent was not required.

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[15] Previous cases addressing the issue included *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917); *Carbice Corp. v. American Patents Development Corp.*, 283 U.S. 27 (1931); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938); and *B.B. Chemical Co. v. Ellis*, 314 U.S. 495 (1942).

A. The Legislative History of the 1952 Act Demonstrates Congress Intended No Change in Scienter Standards from Pre-1952 Doctrine

The Patent Act of 1952 codified the historical precedents in Sections 271(b) and 271(c), other than to effectively overrule this Court's holding in *Mercoid*. *See* 35 U.S.C. § 271(d); S. Rep. No. 82-1979, at 8, 28 (1952); H.R. Rep. No. 82-1923, at 9 (1952); *Dawson Chemical*, 448 U.S. at 198-212 (recounting the effort to resurrect the doctrine of contributory infringement in the Patent Act of 1952); *see also* Charles W. Adams, *A Brief History of Indirect Liability for Patent Infringement*, 22 Santa Clara Computer & High Tech. L.J. 369, 384-89 (2006); Note, *Section 271(b) of The Patent Act of 1952: Confusion Codified*, 66 Yale L.J. 132, 139 (1956)

Specifically, Congress intended Section 271(c) to codify those cases relating to the sale of a component of an infringing combination, and Section 271(b) to codify those cases relating to general aiding and abetting of direct infringement. *See* S. Rep. No. 82-1979, at 8, 28 (1952); H.R. Rep. No. 82-1923, at 9 (1952); *Aro II*, 377 U.S. at 486 ("[S]ection [271(c)] was designed to 'codify in statutory form principles of contributory infringement' which had been 'part of our law for about 80 years."); Chisum on Patents § 17.04[2] (2010) ("[The] legislative history indicates that the two sections were intended as complementary provisions, together codifying the basic principles of contributory infringement developed by the courts before 1952."). Indeed, this Court confirmed as much in *Grokster*: "The rule on

inducement of infringement as developed in the early cases is no different today." 545 U.S. at 936.

Contrary to the view of Petitioners and some of our fellow professors writing in support of Petitioners, the legislative history of the 1952 Act does not in any manner show intent by Congress to impose a "knowledge of the patent" requirement onto Section 271(b). Although the legislative history notes that indirect infringement "has been applied to enjoin those who sought *to cause infringement* by supplying someone else with the means and directions for infringing a patent," S. Rep. No. 82-1979, at 8 (emphasis added), this language is no less ambiguous than that of Section 271(b) ("actively induces infringement"). Indeed, the legislative history goes on to note that "Paragraph (b) recites *in broad terms* that one who aids and abets an infringement is likewise an infringer." *Id.* (emphasis added). This and other portions of the legislative history confirm the understanding that Section 271(b) codified the historical precedent, which—relying on the same principles as the common law of torts—did not require any knowledge of the legal duty (i.e., patent) at issue, but merely specific intent to encourage the direct infringer's acts. *See* S. Rep. No. 82-1979 at 8 ("One who actively induces infringement as by aiding and abetting the same is liable as an infringer ....").

B. Section 271(b) is Ambiguous on Its Face and Must Be Interpreted in View of the Legislative History and Historical Context, Which Preclude a "Knowledge of the Legal Duty" Requirement

In *DSU Medical*, the Federal Circuit held in an en banc portion of that opinion that inducement of infringement under Section 271(b) requires that "the alleged infringer knew or should have known his actions would induce actual infringement . . . ." *DSU Medical*, 471 F.3d at 1304. On this basis, the Federal Circuit reasoned that this test necessarily "includes the requirement that [the alleged infringer] knew of the patent." *Id.*

Importantly, the Federal Circuit noted in its opinion that Section 271(b) is ambiguous on its face:

> The statute does not define whether the purported infringer must intend to induce the infringement [i.e., have knowledge that acts are infringing] or whether the purported infringer must merely intend to engage in acts that induce the infringement regardless of whether it knows it is causing another to infringe.

471 F.3d at 1305. *See also* Chisum on Patents § 17.04[2] (2010) (noting the ambiguity present in Section 271(b)).

Instead of resort to the legislative history of the Patent Act of 1952 or historical precedent, the Federal Circuit interpreted a few lines from this Court in *Grokster* as mandating that Section 271(b) requires knowledge that the underlying acts

constituted infringement. *See DSU Medical*, 471 at 1306 ("*Grokster*, thus, validated this court's articulation of the state of mind requirement for inducement ... that the 'the alleged infringer must be shown ... to have knowingly induced infringement,' not merely knowingly induced the acts that constitute direct infringement.") (citations omitted).

However, the Federal Circuit's reading of *Grokster* is *not* supported by the language it quoted, which reads:

> Evidence of "active steps ... taken to encourage direct infringement," such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use.

545 U.S. at 936 (citations and footnote omitted).[16]

In particular, the key phrases in the quoted passage—such as "encourage direct infringement," "affirmative intent that the product be used to infringe," and "showing that an infringement was encouraged"—simply mirror the ambiguous language of Section 271(b) itself, which states in relevant part: "[w]hoever *actively induces*

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[16] All of the citations made by this Court in this paragraph were to Federal Circuit and other lower court opinions that are not determinative of the question presented in this case—which, of course, was not directly presented in *Grokster*. 545 U.S. at 936.

infringement of a patent shall be liable . . . ."[17] And the Court's phrase "merely sells a commercial product suitable for some lawful use" is of no assistance, because it refers to a sale for purposes not intended for use in the patented product or method.[18] *See id.*

This Court did examine whether Grokster engaged in "purposeful, culpable expression and conduct[.]" *See* Grokster, 125 S. Ct. at 2780. But as described in Part I, culpability for aiding and abetting in tort need not—and, usually, does not turn on whether the alleged tortfeasor knew that the acts he or she intended violated a legal duty. Rather, mere specific intent to encourage the *acts* of the primary tortfeasor is sufficient to show culpability. *See, e.g.*, Restatement (First) of Torts § 876(a) (1939).

In sum, this Court did not decide the issue presented here in its *Grokster* opinion.[19]

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[17] *See, e.g.*, Timothy R. Holbrook, *The Intent Element of Induced Infringement*, 22 Santa Clara Computer & High Tech. L.J. 399, 407-08 (2006) ("The Court's analysis [in *Grokster*], however, does not expressly or implicitly establish which intent standard is the correct one.").

[18] This Court continued to use the same sort of ambiguous language in the remainder of *Grokster*. *See, e.g.*, 125 S. Ct. at 2781 (requiring a "showing that active steps were taken with the purpose of bringing about infringing acts, and of showing that infringing acts took place by using the device distributed").

[19] Indeed, as one amici in favor of Petitioners rightly points out, "Knowledge of infringement was not disputed in *Grokster*; it was incontrovertible in that case that the online service providers knew that they were facilitating massive amounts of copyright infringement." Brief of Comcast Corp., et al., as Amici Curiae in Support of Petitioner, at 6 (citing *Grokster*, 545 U.S. at 920).

C. This Court's Holding in *Aro Convertible II* Regarding 271(c) Does Not Affect the Interpretation of 271(b)

As discussed at length in Part I—other than one line of aberrant dicta—prior to the 1952 Act, knowledge of the patent was consistently held by this Court *not* to be a prerequisite for a finding of contributory infringement. However, in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964) (*Aro II*), this Court held otherwise in a 5-4 decision regarding the 1952 Act's codification of contributory infringement in Section 271(c).[20]

For the reasons stated by the four dissenting Justices, we urge this Court to overrule the incorrect holding in *Aro II*—and this Court may do so because it would necessarily resolve the issue in this case.[21] *See Blonder-Tongue Laboratories, Inc. v. University Foundation*, 402 U.S. 313, 320 n.6 (1971); *see also U.S. v. Hasting*, 461 U.S. 499, 513 n.4 (1983) (Stevens, J., concurring).

Regardless, *the majority's holding in Aro II does not mandate the outcome in this case.* Specifically, all nine Justices in *Aro II* agreed that imposing a knowledge-of-the-patent requirement on Section 271(c) could not be premised upon Congress's codification of historical precedent. *Aro II*, 377 U.S. at 487-88; *see also id.* at 525-28 (Black, J., concurring) (relying on other arguments to find such

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[20] Chief Justice Warren and Justices Black, Douglas, Clark, and White held this view. Justices Harlan, Brennan, Stewart, and Goldberg dissented on the issue. 377 U.S. at 482 n.8.

[21] A detailed discussion of why *Aro II* was wrongly decided can be found in Ted Sichelman, *Minding Patent Infringement*, *available at* http://ssrn.com/abstract=1734380.

a requirement). Rather, the issue arose solely because of the peculiar, narrow wording of Section 271(c), which reflected a compromise in response to congressional testimony regarding the appropriate scienter standard for that section. *See id.* at 487-88; 525-28. Five justices relied on that testimony and the statutory amendment to find that Congress deviated from historical precedent, while four justices disagreed, arguing that Congress codified that precedent. *See id.*

Irrespective of the outcome in *Aro II*, Section 271(c)'s narrow wording (and associated legislative history) does not appear in (nor applies to) Section 271(b), which contains very broad, unrestricted language. As such, this Court's holding in *Aro II* does not imply imposing a knowledge-of-the-patent requirement on Section 271(b).

Petitioners argue that by eliminating the knowledge-of-the-patent requirement under Section 271(b), that section would effectively render meaningless the stricter requirements under Section 271(c), recapturing activity that would otherwise escape liability under Section 271(c). Pet. Br. 11; *see also* Holbrook, *supra*, at 408 ("Using the broader intent standard risks swallowing section 271(c) altogether.").

However, the premise that Section 271(b) would somehow "swallow" Section 271(c) is without basis. Specifically, Section 271(b) imposes two additional hurdles (general and specific intent) not present in Section 271(c). *See* Giles S. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 21 Geo. Wash. L. Rev. 521, 538-39 (1953) (noting the differences in the scienter requirements between the two provisions) ("A significant difference between

paragraphs (b) and (c) is that proof of facts which comply with the provisions of the latter gives rise to liability without any further proof of intent or inducement ...."); Charles E. Miller, *Some Views on the Law of Patent Infringement by Inducement*, 53 J. Pat. Off. Soc'y 86, 97-98 (1971) (same). As this Court recognized in *Grokster*, unlike Section 271(c), mere "knowledge" of potential infringing uses does not suffice for finding of inducement under Section 271(b); rather, specific intent to encourage the acts constituting infringement is necessary. *See Grokster*, 545 U.S. at 935-937.

III. ELIMINATING A "KNOWLEDGE OF THE PATENT" REQUIREMENT IS SENSIBLE ON POLICY GROUNDS

Aside from statutory interpretation arguments, there are a number of important policy rationales that support this Court adhering to its historical precedent. In addition, countervailing rationales propounded by the Petitioners, amici in support of Petitioners, and commentators are not persuasive.

A. Eliminating a "Lack of Knowledge of the Infringement" Defense Properly Places System and Method Claims on More Equal Footing

Currently, there is an asymmetry between system claims—which tend to protect product innovations—and method claims—which tend to protect process innovations. Specifically, direct infringement under Section 271(a) lies for anyone

who makes, uses, sells, or offers to sell the *entire* patented invention. Thus, a patentee can sue a competitor that makes or sells a patented product for direct infringement.

However, many patented processes only cover a method performed by end-user customers of a competitor, because the competitor itself does not perform the method. For instance, a competitor of the patentee may sell a tool that is not patented, but the competitor nonetheless instructs end-user customers how to use that tool in performing the patented process. Similarly, a competitor may sell an unpatented drug but provide instructions on how to use the drug in a manner so as to infringe a process patent on a "new use" of the drug. *See Dawson Chemical*, 448 U.S. at 188.

In these situations, the patentee could sue the competitors' customers for performing the patented method, but usually chooses not to do so for at least two reasons: (1) the competitors' customers are usually potential customers of the patentee; (2) the customers are numerous, and suing them would be costly and fraught with uncertainty in terms of recovery, even in a class-action context.

As this Court stated in *Dawson Chemical*, this "protection [of indirect infringement] is of particular importance in situations, like the oil lamp case [*Wallace v. Holmes*] itself, where enforcement against direct infringers would be difficult, and where the technicalities of patent law make it relatively easy to profit from another's invention without risking a charge of direct infringement." 448 U.S. at 188; *see also* Rader, *Toward a Coherent Law of Inducement To Infringe: Why the Federal Circuit Should Adopt the Hewlett-Packard Standard for*

Intent Under § 271(b), 10 Fed. Cir. B.J. 299, 306 (2000) ("Without inducement to infringe under § 271(b), many patentees would have no recourse against wholesale infringement of their patents.").

For these reasons, to the extent indirect infringement encompasses any requirements not present for direct infringement, a bias results favoring product over process innovations. *See generally Dawson Chemical*, 478 U.S. at 221-22 (noting the importance of contributory infringement to the protection of chemical process inventions).

Of course, from a policy perspective, against the interest in equalizing incentives to generate product and process innovations, is the interest in promoting the manufacture, sale, and use of non-patented goods. For this reason, we do not advocate a mere strict liability or general intent scienter standard for indirect infringement.[22]

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[22] Some amici have expressed a concern that a rule not requiring knowledge of the patent will have pernicious consequences in the copyright context. *Cf.* Grokster, 545 U.S. at 936 (importing the rule of inducing patent infringement into copyright). As an initial matter, this Court's adoption of inducement in the copyright context need not be cabined by the statutory construction required for Section 271(b), since there is no similar statutory provision in the Copyright Act. Furthermore, we believe that the requirement of specific intent adequately protects companies such as Google, Facebook, Yahoo, and other content providers whose websites and software might be used to facilitate copyright infringement. While these companies have "general intent" to operate their sites and software, they do not have "specific intent" to further acts of end-users that happen to constitute infringement. *See supra* Part I.A. And unlike Grokster, there is no evidence that these sites are used primarily to facilitate copyright infringement, which might provide circumstantial evidence of such intent. *See Grokster*, 545 U.S. at 922-23. Just as a gun

Rather, Section 271(b) appropriately achieves the balance between competing policy interests by requiring specific intent on the part of the indirect infringer to further the *acts* of direct infringement. This might be proved, for example, by the indirect infringer providing instructions to a customer on how to perform a patented method. Knowledge of the patent, on the other hand, is not necessary to determine whether the indirect infringer engages in activity that encourages acts that infringe the patented method.[23] Rather, such knowledge is only essential in deciding whether the indirect infringer's activity is "willful" in the punitive sense. Like aiding and abetting in tort law, knowledge of the legal duty should not be a requirement with respect to indirect infringement.[24]

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manufacturer has general intent to sell guns and specific intent that its purchasers fire the guns—and even though it might know some of its guns will be used to commit illegal acts—it lacks specific intent to further the illegal acts, and hence would not be liable under the common law for its sales. For the same reasons, ordinary website content providers would not be liable for inducing copyright infringement under the rule we advocate.

[23] As we noted earlier, knowledge of the patent may *suffice* to show that the indirect infringer specifically intended to encourage the acts of the direct infringer, but such knowledge is not *necessary* to a finding of specific intent. *See supra* note 7.

[24] For these reasons, Petitioners' and some amici's contention that "an accused inducer cannot engage in 'purposeful, culpable expression and conduct' without actual knowledge of the patent" is meritless. Pet. Br. 14. As we noted earlier, specific intent to further the acts of direct infringement is sufficient for a finding a "purposeful, culpable expression and conduct." *See Grokster*, 545 U.S. at 936-37.

B. A "Lack of Knowledge of the Infringement" Requirement Would Lead to Willful Blindness and Diminish the Incentive to Read Patents

If lack of knowledge of the patent-at-issue can preclude liability, then potential infringers will have a strong incentive to adopt a strategy of "willful blindness" by avoiding reading patents. Specifically, when a potential infringer conducts a pre-product launch "freedom to operate" search of patents that might cover its product, it increases the odds that it will find – and, hence, gain knowledge – of a patent that will later be asserted against it. By forgoing these searches in a strategy of willful blindness, potential infringers can reduce the possibility of paying damages for indirect infringement by defending on the grounds of lack of knowledge of the patent-at-issue.

Such a strategy decreases the value of patents in driving innovation by immunizing otherwise infringing behavior. Moreover, it leads to widespread avoidance of reading patents, which directly contradicts one of the fundamental goals of patent law—the dissemination of inventive technical information in patent disclosures. *See Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 63 (1998).

C. Eliminating a "Lack of Knowledge of the Infringement" Defense Would End the Usually Meaningless Advice-of-Counsel Defense

When a potential indirect infringer does become aware of patents, a scienter standard that requires the infringer to know of the applicable legal duty (i.e., the patent), and to intend the breach thereof, allows the potential infringer to easily immunize itself via a advice-of-counsel defense. In particular, if counsel provides a letter stating that the patent-at-issue is not infringed, invalid, or unenforceable—and that letter meets the relatively minimal requirement of plausibility under current Federal Circuit doctrine—this will immunize any accused infringer from a finding of indirect infringement. *See Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 699 (2008). As many have recognized, opinion-of-counsel letters are notoriously unreliable as an indicator of the accused infringer's state of mind, because they are prepared solely for the purpose of providing an excuse to engage in otherwise infringing activities. *See* Rader, *supra*, at 332 ("[O]btaining an opinion of counsel regarding inducement would ... enabl[e] a would-be inducer to forge ahead with the harmful activity, by having it rubber-stamped by an outside law firm.").

By eliminating "lack of knowledge of the infringement" as a defense to inducement, this Court would end reliance on this self-serving and generally meaningless defense.

CONCLUSION

For these reasons, the judgment of the Court of Appeals should be affirmed, but on other grounds.

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January 6, 2011

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[1] All signatories to this brief sign in their personal capacity, and in no manner represent the views of their academic institutions.

AMICUS CURIAE BRIEF

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Supreme Court of the United States

GLOBAL-TECH APPLIANCES, INC., ET AL.,
Petitioners,

v.

SEB S.A.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF MOTION PICTURE ASSOCIATION OF AMERICA AND RECORDING INDUSTRY ASSOCIATION OF AMERICA AS *AMICI CURIAE* IN SUPPORT OF NEITHER PARTY

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QUESTION PRESENTED

What is the requisite level of intent for inducing infringement of a patent under 35 U.S.C. § 271(b)?

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INTEREST OF *AMICI CURIAE* [1]

Amici Curiae are the Motion Picture Association of America, Inc. ("MPAA") and Recording Industry Association of America ("RIAA"). MPAA is a trade association that represents the interests of the domestic motion picture, home video, and television industries. It counts among its members the largest producers and distributors of motion pictures and television programs in the United States, including Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios LLLP, Walt Disney Studios Motion Pictures, and Warner Bros. Entertainment Inc. RIAA is the trade group that represents the American recording industry. RIAA's record company members create, manufacture, and/or distribute the vast majority of all legitimate sound recordings produced and sold in the United States.

Amici and their members have a strong interest in standards for inducement liability that strike an appropriate balance between protecting intellectual property and avoiding abusive litigation that can impair and penalize genuine innovation. The very existence of *amici*'s members depends on meaningful protection for their intellectual property, and an industry has emerged to induce massive infringement of copyrighted works on an

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[1] The parties have consented to the filing of this brief in letters on file with the Clerk. No counsel for any party authored this brief in whole or in part, and no person or entity, other than *amici* and its counsel, made a monetary contribution intended to fund the preparation or submission of this brief.

unprecedented scale. For that reason, *amici* and some of their members were petitioners in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005). *Amici* and their members also own a significant number of patents in a variety of areas. At the same time, however, *amici*'s members are forced to defend against charges of patent infringement, including inducement of infringement.

Amici's members have therefore seen firsthand the significant differences between copyright and patent litigation, and the ways in which those differences inform the proper legal standards for inducement.

INTRODUCTION AND SUMMARY OF ARGUMENT

Whatever the Court holds in this case about inducement of *patent* infringement, it should strive to avoid unintended consequences for *copyright* suits. As this Court has emphasized, there are "substantial differences between the patent and copyright laws" when it comes to secondary liability. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984). Aspects of the patent system that weigh in favor of a stricter standard for inducement liability have no analog in the copyright context; and, conversely, aspects of copyright infringement that call for inducement liability have no patent analogs.

In light of those differences, the standard for proving inducement need not be identical in the patent and copyright contexts. In *Grokster*, for example, this Court determined that a defendant need not have known of any specific act of copyright infringement, so long as it intended to induce

infringement generally. The analogous question remains open in the patent context. If the Court determines that features of the patent system require a higher or more specific level of intent for inducement of patent infringement, such as knowledge of the particular patent, *Grokster* would still provide the correct standard for copyright cases. And it would be helpful for this Court to underscore that difference, lest this Court's landmark *Grokster* decision be undermined by lower courts extending the Court's decision here to copyright cases.

Patent law arguably calls for a more stringent standard because it can be very difficult for a company to know whether it is directly infringing a patent, let alone whether its customers are infringing any patents. Indeed, it can be difficult if not impossible even to locate all patents that are potentially implicated by a product. Further, analysis of whether a product infringes a patent, and whether the patent is valid, often depends on difficult questions of law and fact.

It is far simpler for an entity to know whether its customers or users are infringing copyrights. Copyright protection attaches automatically when a song, movie, or other creative work is fixed in a tangible medium, such as a recording; wholesale copying is *per se* infringement; and there are rarely if ever serious validity issues in copyright inducement cases. Thus, if this Court were to adopt a heightened intent standard for patent inducement because of the difficulty of determining whether a company's customers or users are directly infringing one or more patents, that rationale would not weigh in favor of a heightened standard in the copyright

context. Instead, that would require the standards to be different for patent and copyright cases.

Inducement also takes different forms in the copyright and patent contexts. Entities like Grokster that induce copyright infringement typically do so *en masse*, inducing infringement of countless different copyrighted works. Indeed, there is normally no dispute in such cases that the defendant facilitates unlawful copying of copyrighted works; the only question is whether the defendant should be held accountable for doing so. And the sheer scope and nature of the infringement can make secondary liability critical; individual suits by numerous copyright holders against millions of individual defendants would be wholly impractical.

In patent cases, by contrast, a plaintiff typically accuses a product or service of infringing only one or a small number of patents; there is normally a good faith dispute about whether the patents are valid and anyone directly infringed them; and willful copying is rare. For those reasons as well, whatever the proper standard in the patent context, inducement must remain a robust tool to prevent piracy of valuable copyrighted works.

ARGUMENT

I. THE PATENT AND COPYRIGHT STANDARDS FOR INDUCEMENT NEED NOT BE IDENTICAL.

Because of the "substantial differences between the patent and copyright laws," *Sony*, 464 U.S. at 442, inducement principles may differ between the two contexts. Indeed, while this Court "adopt[ed]" the general prohibition against inducement from

patent law and applied it to copyright law, *Grokster*, 545 U.S. at 936, the Court has also emphasized that "the historic kinship between patent and copyright law" should not be overstated for this purpose. *Sony*, 464 U.S. at 439. "The two areas of the law, naturally, are not identical twins, and we exercise the caution which we have expressed in the past in applying doctrine formulated in one area to the other." *Id.* at 439 n.19; *see also Bobbs-Merrill Co. v. Strauss*, 210 U.S. 339, 345 (1908) (refusing to ground copyright holding on principles of patent law because of the "differences between the patent law and copyright statutes in the extent of the protection granted by them"); *Mazer v. Stein*, 347 U.S. 201, 217-18 (1954) (construing the scope of copyright protection without regard to the scope of patent protection).

That caution is especially warranted here. Like all secondary liability doctrines, inducement principles turn on "identifying the circumstances in which it is just to hold one individual accountable for the actions of another." *Sony*, 464 U.S. at 435. The differences between patent and copyright law necessarily inform those "circumstances."

Grokster made clear that inducement liability is not limited by rigid rules, but instead focuses on all of the evidence of a defendant's intent. *See Grokster*, 545 U.S. at 937. For copyright purposes, *Grokster* articulated a rule that "premises liability on purposeful, culpable expression and conduct," such as distribution of a product "with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement." *Id.* at 936-37. Most important for present purposes, *Grokster* held that inducement

liability does not turn on whether a defendant knew of a specific instance of copying a copyrighted work; intent to induce infringement generally is sufficient. *Id.* at 934-35. *Grokster*'s resolution of that issue for copyright cases, coupled with the fact that the issue remains open for patent cases, provides further confirmation that inducement liability does not proceed in lockstep in the two different contexts.

Moreover, a court may "infer[] a patently illegal objective from statements and actions showing" such an objective. *Id.* at 941. In *Grokster* itself, "[t]he unlawful objective [was] unmistakable" based on evidence that each defendant "showed itself to be aiming to satisfy a known source of demand for copyright infringement"; no defendant "attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software"; and "the commercial sense of [defendants'] enterprise turns on high-volume use, which the record shows is infringing." *Id.* at 939-40. The Court thereby made clear that intent can be inferred on a case-specific basis through a range of evidence. What suffices in the one context need not be determinative in the other. As demonstrated *infra*, significant differences between patent and copyright protection and infringement strongly counsel against a single unified test for inducement.

II. ASPECTS OF THE PATENT SYSTEM THAT WEIGH IN FAVOR OF A DEMANDING STANDARD FOR INDUCEMENT HAVE NO ANALOG IN COPYRIGHT LAW.

Patent law exhibits a number of features that make it difficult for a party to know whether it is directly infringing a valid patent, let alone whether

its customers or users are doing so. It is relatively simple to know whether one is infringing a copyright because copyright protection is discrete: it attaches to specific works, such as movies or song recordings. *See* 17 U.S.C. § 102(a); p. 10, *infra*. In contrast, patent protection applies, for example, to a product with certain attributes or to a method of doing business or performing some other task. *See generally* 35 U.S.C. § 101. Because patents essentially apply to ideas, as opposed to specific fixed works, they provide a much broader and less clear scope of protection. While a copyright on an episode of a cooking show applies only to that specific episode, a patent on a stove or a method of preparing a soufflé may apply to anyone who sells a stove or prepares a soufflé in the patented manner.

As a result, there is often no simple way to ascertain whether a potential product or method implicates, let alone infringes, any existing patents. And it is that much harder for a company to determine whether its customers (the allegedly induced parties) are infringing valid patents. A company seeking to eliminate exposure for patent infringement must undertake to determine the potential relevancy of each of the 1.8 million patents that are currently in effect, attempt to determine whether a product or service infringes any of those patents, and then assess whether any such patents are valid.

A. Patent Defendants Face Tremendous Difficulty In Attempting To Find All Potentially Relevant Patents.

1. The modern-day "patent thicket" has become a well-documented problem, especially for high-

technology companies whose products include many features, all of which may be alleged to infringe any number of patents. *See, e.g.*, Marshall Leaffer, *Patent Misuse and Innovation*, 10 J. High Tech. L. 142 (2010); Michael Heller & Rebecca S. Eisenberg, *Can Patents Deter Innovation? The Anticommons in Biomedical Research*, 280 Science 698 (1998). It is an understatement to say that the patent thicket hampers companies' efforts to locate all patents that are potentially relevant to new products.

At present, there are over 1.8 million United States patents in force. *See* World Intellectual Property Organization, *World Patent Report: A Statistical Review* 1, 8 (2008), http://www.wipo.int/export/sites/www/ipstats/en/statistics/patents/pdf/wipo_pub_931.pdf. In 2009, the United States Patent and Trademark Office ("PTO") received over 480,000 new patent applications and issued over 190,000 new patents. *See* PTO, *U.S. Patent Statistics Chart* (Apr. 20, 2010), http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm. And the pace of new patent applications has been increasing at a dramatic rate. *See* PTO, *Performance and Accountability Report* Tables 1-3 (2009), http://www.uspto.gov/about/stratplan/ar/2009/2009annualreport.pdf. To be sure, it is not the sheer number of patents standing alone that creates the thicket—there are far more copyrighted works. But the large volume combined with the nature of a patent, which provides a right to exclude not from a discrete work but from entire categories of products and/or methods, makes ascertaining the relevant patents extremely difficult.

Abusive tactics by some patent applicants substantially aggravate the difficulty in finding potentially relevant patents. As the Federal Trade

Commission ("FTC") has cautioned, it has become a common practice for patent applicants to file not only an original application, but also one or more continuing applications and to argue that they relate back to the original filing date. *See, e.g.*, FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, 1, 40 (2003), *available at* http://www.ftc.gov/os/2003/10/innovaton rpt.pdf ("FTC Report"); *Agilent Techs., Inc. v. Affymetrix, Inc.*, 567 F.3d 1366, 1368-69 (Fed. Cir. 2009) (claiming June 7, 1995 effective filing date for February 4, 2003 claim "through a long string of continuations"). As many as 30% of issued patents resulted from continuations. *See* Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 Boston U. L. Rev. 63, 69 (2004).

In the most dramatic cases, applicants take a "submarine" approach that allows them to secure claims that were not set forth in the original application, but instead were submitted for the first time in amendments made *after* another company developed the relevant product or process. *See* FTC Report at ch. 1, p. 26-27; J. Thomas Rosch, Comm'r, Fed. Trade Comm'n, *Patent Trolls: Broad Brush Definitions and Law Enforcement Ideas*, Speech Before the Newport Summit on Antitrust and Economics, Newport, R.I. (May 31, 2008), http://www.ftc.gov/speeches/rosch/080531roschlecg.pdf; *see Kingsdown Med. Consultants Ltd. v. Hollister, Inc.*, 863 F.2d 867, 874 (Fed. Cir. 1988).

It is very difficult for potential defendants to identify applications that lurk beneath the surface for a decade or more only to surface later as a litigation threat. Among other things, applications are held in confidence by the PTO and do not become

publicly available until 18 months after an applicant's claimed filing date. *See* 35 U.S.C. § 122.

2. In contrast, the statutory requirements for copyright protection are both minimal and *automatic*: "Copyright protection subsists . . . in original works of authorship fixed in any tangible medium of expression." 17 U.S.C. § 102(a). "Works of authorship" include, among other things, "musical works," "motion pictures and other audiovisual works," and "sound recordings." *Id.* § 102(a)(1)-(8). Unlike the PTO's multi-year examination of patent applications, copyright protection in a fixed work exists automatically at the "moment of creation." *JCW Investments, Inc. v. Novelty, Inc.*, 482 F.3d 910, 914 (7th Cir. 2007). Upon fixation, a creative work is copyrighted, unless the creator formally abandons that protection. *See, e.g.*, *Dam Things from Denmark v. Russ Berrie & Co.*, 290 F.3d 548, 560 (3d Cir. 2002) ("Abandonment occurs only if there is an intent by the copyright proprietor to surrender rights in his work." (citation and quotation marks omitted)).

Moreover, if there is any doubt as to whether a work is copyrighted, confirming a work's copyright status is easy. Although copyright protection does not require formal registration, *see Brooks-Ngwenya v. Indianapolis Public Sch.*, 564 F.3d 804, 806 (7th Cir. 2009) (per curiam) (citing 17 U.S.C. § 411(a)), registration is generally (though not always) a requirement for proceeding with an infringement suit. *See Reed Elsevier, Inc. v. Muchnick*, 130 S. Ct. 1237, 1241 (2010). It is a simple matter to search copyright records, or to have the Copyright Office itself conduct a search, to determine whether a song, movie, or other work is registered. *See* U.S. Copyright Office, *Circular No. 22* (2010), *available at*

http://www.copyright.gov/circs/circ22.pdf. Ownership information is also available from other publicly searchable databases such as imdb.com.

Moreover, in most cases, there is no serious question that a work is copyrighted. Major Hollywood films or song recordings by well-known artists are self-evidently protected. It typically costs more than $100 million to produce and distribute a major motion picture. No public company would make that kind of investment only to surrender the motion picture to the public domain. In addition, *amici*'s members follow practices to make the copyrighted nature and ownership of their works unmistakable. They register their copyrights; place a notice of that fact on the face of each work; engage in public-relations campaigns to encourage respect for the copyright laws; and include stern FBI warnings in, for example, motion pictures. While patents may lurk in obscurity, copyrights generally exist in the open light of day.

B. Patent Defendants Face Tremendous Difficulty In Attempting To Determine Whether Their Customers Or Users Are Infringing Any Patents.

Even if a company learns of a potentially relevant patent, it is normally a complex and uncertain matter to determine whether a product or service infringes the patent. Instead of simply covering a specific movie or sound recording, for example, the average patent contains over a dozen claims that could apply to any number of products. *See* 35 U.S.C. § 112; John R. Allison et al., *Valuable Patents*, 92 Geo. L. J. 435, 451 (2004). An accused product infringes only if it satisfies each and every limitation

of a claim. *See, e.g.*, *Warner-Jenkinson Co., Inc. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 39-40 (1997).

That inquiry turns in part on interpretation of the claims, which are often ambiguous. Although this Court has held that claims must clearly define their boundaries, *United Carbon Co. v. Binney & Smith Co.*, 317 U.S. 228, 236 (1942), the Federal Circuit has held that claims may be ambiguous so long as they are not "insolubly ambiguous," *Datamize, LLC v. Plumtree Software, Inc.*, 417 F.3d 1342, 1347-48 (Fed. Cir. 2005) (internal quotation marks omitted). Patentees have taken full advantage of that jurisprudence. Vague claims are ubiquitous, and often can only be definitely fixed after costly litigation. The resulting uncertainty and litigation costs force many defendants to settle. *See* Ranganath Sudarshan, *Nuisance-Value Patent Suits: An Economic Model and Proposal*, 25 Santa Clara Comp. & High Tech. L. J. 159, 175-77 (2008); Gerard N. Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, 82 Notre Dame L. Rev. 1809, 1827, 1829-30 (2007).

The importance and complexity of claim construction is reflected in the centrality of so-called *Markman* proceedings. *See Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996). In almost every patent case, the parties identify claim terms that require interpretation, file briefs and evidence on the meanings of those terms, and present additional testimony and argument at oral hearings. *See, e.g.*, N.D. Cal. Patent Local R. 4-1 – 4-7; E.D. Tex. Local R. 4-1 – 4-6 (App'x M). District courts then construe claim terms in light of the context provided by a patent's specification and prosecution history, as well as "extrinsic" evidence such as

technical dictionaries and expert testimony. *See Phillips v. AWH Corp.*, 415 F.3d 1303, 1314-19 (Fed. Cir. 2005) (en banc).

Even after that extensive process, the Federal Circuit reverses claim construction rulings by district courts between 30% and 50% of the time. *See* Læe Petherbridge, *On the Decline of the Doctrine of Equivalents*, 31 Cardozo L. Rev. 1371, 1377 n.32 (2010). Thus, only after a claim construction proceeding, and appeal from a final judgment, do the litigants know the scope of the claims.

Even apart from claim construction, patent infringement often turns on complex questions of fact. Patent trials frequently involve complicated technologies in the hard sciences, such as engineering and biochemistry. Because of the scientific complexity, expert testimony is often required, and infringement often boils down to a battle of those experts. *See Centricut, LLC v. ESAB Grp., Inc.*, 390 F.3d 1361, 1370 (Fed. Cir. 2004) (quoting *Schumer v. Lab. Computer Sys., Inc.*, 308 F.3d 1304, 1315 (Fed. Cir. 2002)). Jury trials on infringement are common in cases that do not settle. *See* Kimberly A. Moore, *Judges, Juries, and Patent Cases—An Empirical Peek Inside the Black Box*, 99 Mich. L. Rev. 365, 366 (2000).

In contrast, there is normally no dispute, much less a complicated one in a copyright inducement case, about whether a defendant's customers or users infringed copyrights. In the mine run of cases, induced copyright infringement takes the form of outright piracy, such as wholesale copying of an entire protected work. *See Grokster*, 545 U.S. at 928-29 ("[E]very copy is identical to the original, copying

is easy, and many people (especially the young) use file-sharing software to download copyrighted works."). In *Grokster*, for example, there was no dispute that "most downloads" infringed. *Id.* at 923. Such wholesale copying of entire copyrighted works leaves no doubt that infringement has occurred. It requires no expert testimony. And it is clearly culpable conduct.

The Federal Circuit's patent jurisprudence underscores the importance of those distinctions. The Federal Circuit has debated, and disagreed, on whether it is sufficient that a defendant that knew of a patent also knew that it was inducing specific *acts*, or whether the defendants must have also known that those acts were indeed *infringing*. *Compare Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990), *with Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990). In *DSU Medical Corporation v. JMS Co., Ltd.*, 471 F.3d 1293, 1306 (2006) (en banc), the en banc Federal Circuit held the latter. Whatever the correct answer to that question might be, it does not arise in copyright inducement litigation because there is no doubt that, for example, wholesale reproduction of a copyrighted work infringes.

C. Patent Defendants Face Tremendous Difficulty In Attempting To Determine Whether Any Potentially Relevant Patents Are Valid.

In addition to infringement, patent cases typically entail an additional inquiry that is rarely present in copyright cases: validity. The Patent Act contains numerous requirements for validity of a patent,

including that the invention be novel, 35 U.S.C. §§ 102 and 103; comprise patentable subject matter, *id.* § 101; and provide an adequate disclosure that describes the invention, enables a person skilled in the art to practice it, and sets forth the "best mode" for doing so, *id.* § 112; *Ariad Pharms., Inc. v. Eli Lilly & Co.*, 598 F.3d 1336, 1340 (Fed. Cir. 2010) (en banc).

Whether an invention is sufficiently novel to be patentable often turns on complex factual inquiries into prior art references, the background knowledge and creativity of a person skilled in the art, and other considerations. *See, e.g., KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007). Whether many inventions, especially business methods, fall within the scope of patentable subject matter can also pose difficult, case-by-case legal questions, especially in light of the rise of business-method patents. *See, e.g., Bilski v. Kappos*, 130 S. Ct. 3218 (2010). The adequacy of a patent's disclosure also depends in part on how a person of ordinary skill in the art would understand it, in light of the background knowledge of such a person. *See Ariad*, 598 F.3d at 1351. As with infringement and novelty, that analysis generally turns on expert testimony and findings of fact. *See id.* at 1354-58.

In contrast, there is seldom a serious dispute about the validity of a copyright, in part because there are few legal requirements for copyrights. While there was a time when the failure to comply with the formalities of registration could cause a work to fall into the public domain, *see, e.g., Kahle v. Gonzales*, 487 F.3d 697, 699 (9th Cir. 2007), those requirements have been eliminated, *see, e.g., Cosmetic Ideas, Inc. v. IAC/Interactivecorp.*, 606 F.3d

612, 619 & n.9 (9th Cir. 2010). The originality requirement prevents copyrighting facts, but even compilations of facts may receive some copyright protection. *See Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 347-48 (1991). In any event, validity, like infringement, is rarely if ever an issue in copyright inducement cases.

III. ASPECTS OF COPYRIGHT INFRINGEMENT THAT CALL FOR INDUCEMENT LIABILITY HAVE NO ANALOG IN THE PATENT CONTEXT.

Just as some aspects of the patent system call for a heightened standard for patent inducement, important features of the copyright system call for robust tools to protect the value of copyrights and the goals of the copyright system from those who would facilitate massive infringement. As this Court recognized in *Grokster*, producers of copyrighted works are facing an unprecedented threat of infringement on a massive scale. *See Grokster*, 545 U.S. at 929-30. That threat, which is unlike anything faced by patent holders, calls for the standard of liability this Court established in *Grokster*.

1. *Grokster* was a landmark decision, but it has not eliminated the threat posed by entities that seek to facilitate infringement of copyrighted works. Latter-day Groksters are now marketing products and services that encourage copyright infringement *en masse*. Internet-based products and service providers promise millions of individuals the ability effortlessly to download or access *countless* different copyrighted works. "The argument for imposing indirect liability" in this context "is a powerful one,

given the number of infringing downloads that occur every day . . . ." *Id.* at 929.

Indeed, when a defendant encourages infringement of copyrighted works *generally*, there is no valid reason to require a copyright holder to prove that the defendant knew of a *specific* instance of copying or otherwise infringing a specific copyrighted work. The culpable conduct has a broader, and more general, scope than that. Moreover, even if a defendant manages to remain willfully blind to any specific infringements, there is no serious doubt that users of such services are engaging in direct infringement. *See Grokster*, 545 U.S. at 940 ("[T]here is evidence of infringement on a gigantic scale . . . ."); *In re Aimster Copyright Litig.*, 334 F.3d 643, 652 (7th Cir. 2003) (Posner, J.) ("Club Aimster lists only the 40 songs that are currently most popular among its members; invariably these are under copyright."). Evidence in *Grokster* and other cases routinely shows that 90% or more of downloads infringed copyrights. *See Grokster*, 545 U.S. at 933; *see also Arista Records LLC v. Lime Grp. LLC*, 715 F. Supp. 2d 481, 507 (S.D.N.Y. 2010) (93% of files infringing); *Arista Records LLC v. Usenet.com, Inc.*, 633 F. Supp. 2d 124, 131 (S.D.N.Y. 2009) (94% of files infringing); *Columbia Pictures Indus., Inc. v. Fung*, No. CV 06-5578 SVW (JCx), 2009 WL 6355911, at *4 (C.D. Cal. Dec. 21, 2009) (over 90% infringing).

Facilitating copyright infringement is, moreover, at the heart of these defendants' business models. This Court recognized that Grokster's advertisement-based revenue model meant that "the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing."

Grokster, 545 U.S. at 939-40. Operators of similar products and services have taken affirmative steps to ensure that Internet searches for copyrighted content will lead to their websites. *See Usenet.com*, 633 F. Supp. 2d at 133; *Lime Grp.*, 715 F. Supp. 2d at 513; *Fung*, 2009 WL 6355911, at *4 & nn. 10, 11. Even companies that ostensibly seek long-term legitimacy through licensed downloads initially seek to attract and leverage a huge base of infringing users. *See Lime Grp.*, 715 F. Supp. 2d at 510 (discussing defendant's "strategic plan" to convert infringers to legitimate uses).

Other would-be inducers viewed the demise of Napster and Grokster—both of which were found liable for inducing infringement—as a business opportunity. The operators of Usenet determined that enforcement actions against Napster and others were "'the way for Usenet to get back in the game.'" *Usenet.com*, 633 F. Supp. 2d at 133. LimeWire instituted a marketing campaign that sought to attract between 30% and 100% of Napster users. *Lime Grp.*, 715 F. Supp. 2d at 510-11. The very nature of such services fits the *Grokster* mold, as they intend to promote and profit from infringement. The whole point of the services, after all, is to infringe *in gross*.

Nor is there a practical alternative remedy. *See Grokster*, 545 U.S. at 929-30. Copyright holders must have "an effective way to enforce those legal rights." *Broad. Music, Inc. v. Columbia Broad. Sys., Inc.*, 441 U.S. 1, 19 n.32 (1979). As *Grokster* explained, however, the sheer scope of infringement induced by companies like Grokster can make it "impossible to enforce rights in the protected work effectively against all direct infringers." *Id.* at 929-

30. "[T]he only practical alternative [is] to go against the distributor of the copying device for secondary liability." *Id.*

Indeed, companies like Grokster have convinced many Americans that primary copyright infringement is an entitlement, not what it really is—*viz.*, a serious violation of federal law. Infringement now proliferates among individuals who are "disdainful of copyright and in any event discount the likelihood of being sued or prosecuted for copyright infringement . . . ." *Aimster*, 334 F.3d at 645; *see also* Tim Wu, *When Code Isn't Law*, 89 Va. L. Rev. 679, 722-23 (2003). There is little doubt that companies that base their business models on piracy have had a significant role in shaping those beliefs. *See, e.g.*, *Usenet.com*, 633 F. Supp. 2d at 133; *see also Fung*, 2009 WL 6355911, at *5 (quoting BitTorrent founder as stating "even copyright infringement when it occurs may not necessarily be stealing"). And while *amicus* RIAA engaged in an expensive and well-publicized effort to fight direct infringement and educate individuals about the seriousness of copyright infringement, targeting direct infringement is neither a sufficient nor a practical alternative to having meaningful legal tools to address entities that seek to facilitate infringement on a massive scale.

Allegations of induced infringement in the patent context generally have an altogether different character. Infringement allegations typically relate to one or a small number of patents, and there is normally a serious question about whether anyone directly infringed a valid patent. Deliberate copying and willful infringement are also rare in the patent context. *See* Christopher A. Cotropia & Mark A.

Lemley, *Copying in Patent Law*, 87 N.C. L. Rev. 1421, 1424, 1453-54 (2009). Pursuing primary patent infringers is not just a practical option, but often the preferred course.

The bottom line is that infringement allegations, and the need for robust inducement liability, are heading in different directions in patent and copyright law. Companies that facilitate piracy and make copyrighted works available over the Internet are posing an unprecedented threat to creative innovation by depriving copyright holders of their most basic rights. In contrast, many of the nation's most innovative companies perceive a subset of patent holders to pose the greatest threat to innovation in the patent sphere.

IV. *GROKSTER*'S HOLDING THAT A COPYRIGHT DEFENDANT MAY BE LIABLE FOR INDUCEMENT WHETHER OR NOT IT KNEW OF DIRECT INFRINGEMENT OF ANY SPECIFIC WORK UNDERSCORES THAT INDUCEMENT LIABILITY NEED NOT PROCEED IN LOCKSTEP IN THE DISTINCT COPYRIGHT AND PATENT CONTEXTS.

In light of the important differences between copyright and patent law, this Court should reiterate that, whatever standard applies in patent law, *Grokster* sets forth the standard for inducement of copyright infringement because that standard is appropriately protective of copyright. Under *Grokster*, a wide variety of evidence can prove inducement; knowledge of a specific instance of copying or other infringement of a copyrighted work is not required.

In *Grokster*, the Ninth Circuit credited the argument that the defendants had no "reasonable knowledge of specific infringement" because they did not know which specific works were being infringed at any given time. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 380 F.3d 1154, 1162 (9th Cir. 2004). In this Court, Grokster continued to argue that, while it had general knowledge of its users' infringement, there was no evidence that it knew of particular acts of impending infringement and assisted that infringement. Br. for Respondents at 35-36, *Grokster*, 545 U.S. 913. In short, since Grokster could hardly deny that it facilitated the infringement of copyrighted works generally, it sought to fashion a defense based on its alleged lack of knowledge, *i.e.*, willful blindness to whether any specific copyrighted work was being infringed.

This Court rejected Grokster's argument. The Court explained that "[i]t is not only . . . encouraging a particular consumer to infringe a copyright [that] can give rise to secondary liability for the infringement that results." *Id.* at 940 n.13. "Inducement liability goes beyond that, and the distribution of a product can itself give rise to liability where evidence shows that the distributor intended and encouraged the product to be used to infringe." *Id.*

This Court therefore adopted a more realistic test for copyright inducement: "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties." *Id.* at 936-37. The Court explained that a jury could "infer[] a patently illegal objective from

statements and actions showing what the objective was." *Id.* at 941.

In that case, "[t]he unlawful objective [was] unmistakable" based on evidence that each defendant "showed itself to be aiming to satisfy a known source of demand for copyright infringement"; no defendant "attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software"; and "the commercial sense of [defendants'] enterprise turns on high-volume use, which the record shows is infringing." *Id.* at 939-40. The Court thereby made clear that intent can be inferred on a case-specific basis through a range of evidence. Knowledge of a specific act of infringement may be *sufficient* to prove intent, but is not *necessary*.[2]

Instead, *Grokster* held that companies are liable if they intend to profit by operating a product, such as a file-sharing service, with knowledge that their customers use the product for flagrant infringement. *See Grokster*, 545 U.S. at 936-37. After all, if a company's business model is to facilitate *indiscriminate* copying of copyrighted materials generally, it would make little sense to require knowledge of infringement of any *particular* copyright. That would be a mis-match between the culpable conduct and the theory of proof.

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[2] Petitioner's lead *amicus* at the petition stage of this case, *see* Br. of 26 Law, Economics, and Business Professors at 6-7, was a co-counsel for Grokster before this Court. *See* Br. for Respondents, *Grokster*, 545 U.S. 913. This patent-law case should not become a vehicle for indirectly re-litigating *Grokster*'s copyright-law holding.

Courts have had little difficulty applying the *Grokster* standard. *See, e.g., Lime Grp.*, 715 F. Supp. 2d at 510-511 (finding inducement where defendant kept "a file labeled 'Knowledge of Infringement'" and tested its own search capabilities by looking for infringing content); *Usenet.com*, 633 F. Supp. 2d at 151-53 (finding inducement on facts "equally compelling" as *Grokster*, where "Defendants openly and affirmatively sought to attract former users of other notorious file-sharing services such as Napster" and "infringing music content formed the backbone of their business model"); *Fung*, 2009 WL 6355911, at *12, 14 (finding inducement where "Defendant's business model depended on massive infringing use" and he "personally engaged in a broad campaign of encouraging copyright infringement").

There is no reason to depart from *Grokster* as the proper test for inducement in the copyright context now. Instead, *Grokster* underscores two critical points. First, *Grokster*'s definitive resolution for copyright cases of an issue that remains open in patent law---whether an inducement defendant must have known of a specific act of infringement—underscores that inducement liability does not proceed in lockstep in the two different contexts. *Accord Sony*, 464 U.S. at 442. Second, the copyright system depends on meaningful protections against those who seek to facilitate copyright infringement generally while purporting to be willfully blind of whether specific copyrighted works are infringed.

CONCLUSION

For the foregoing reasons, this Court should make clear that its holding in this case is limited to the

patent context and does not disturb the *Grokster* test for inducement of copyright infringement.

Respectfully submitted,

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AMICUS CURIAE BRIEF

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Supreme Court of the United States

GLOBAL-TECH APPLIANCES INC., *et al.*,

Petitioners,

v.

SEB S.A.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

AMICUS CURIAE BRIEF OF NEWEGG, INC. IN SUPPORT OF PETITIONERS

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INTEREST OF *AMICUS CURIAE*

Amicus Curiae Newegg, Inc. is a retailer that sells goods exclusively on the Internet.* It submits this brief in support of Petitioners to highlight the adverse, real world consequences for e-commerce if this Court affirms the Federal Circuit's holding that "deliberate indifference to a known risk" that infringement may occur is sufficient to prove an induced patent infringement claim. Newegg has no direct stake in this particular case's outcome, but it does have an interest in patent jurisprudence that creates certainty, thereby promoting lawful commerce and efficient resolution of legal disputes, all to the benefit of consumers, courts, and legitimate companies.

Internet retailers face an increasing number of patent infringement lawsuits asserting patents that purport to cover some function or feature of their retail websites. For businesses geared to sell goods, not write source code, the Federal Circuit's prior "actual knowledge" test offered a measure of certainty – the validity of induced infringement claims could be directly tested by the retailers' actual knowledge. The

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* In accordance with S. Ct. R. 37.3(a), all parties have consented to the filing of this brief. The Petitioners and Respondent have filed consent letters with the Clerk. Pursuant to S. Ct. R. 37.6, counsel for *Amicus* state that no counsel for a party authored this brief in whole or in part, and no person or entity other than *Amicus* or its counsel made a monetary contribution to the preparation or submission of this brief.

Federal Circuit's recent substitution of a lesser standard of negligence based on "deliberate indifference" for this bright-line rule of knowledge erodes that certainty to the detriment of the public interest.

Founded in 2001, Newegg is one of the world's most successful Internet retailers. *See Internet Retailer Top 500 Guide* 136 (2010) (No. 12, $2.3 billion). Headquartered in California, Newegg sells electronics, software, appliances, and electronic games through its website, www.newegg.com. Although Newegg is increasingly involved in patent litigation focused on the mechanics of its website, Newegg points elsewhere to the source of its meteoric rise, as attested by the numerous industry awards for customer satisfaction and service it has received from third-party rating and ranking organizations, including, for example, the Computer Shoppers' Choice Award awarded to Newegg yearly between 2003 and 2009. As Newegg's business has taken flight, it has become Velcro for patent litigation from "non-practicing entities," claiming a reasonable royalty measured as a percentage of Newegg's substantial online sales, but, in actuality, seeking a settlement based on a discount of the very high cost of patent litigation.

Although Newegg offers over 40,000 products online, it has been sued only a handful of times for patent infringement based on the products themselves, and, in those cases, it has been indemnified by its product vendors. Instead, Newegg frequently must defend itself against non-practicing entities that

assert patents allegedly covering systems and methods which are, at best, miniscule contributors to Newegg's business success. Indeed, in a suit brought against Newegg by Soverain Software LLC, which is currently on appeal to the Federal Circuit, claiming that Soverain's patents covered, among other things, online "shopping cart" functionality, the jury rejected claims of direct infringement, but found Newegg somehow induced its customers to infringe. Suffice it to say, Newegg has an interest in the proper standard used to measure induced infringement claims.

SUMMARY OF ARGUMENT

The Federal Circuit's apparent relaxation of the state-of-mind standard to plead and prove induced infringement – from "actual knowledge" of an asserted patent to "deliberate indifference" of a known risk that there might be such a patent – is a distinction with a real difference to Internet retailers such as Newegg. Frequently subject to business method and software patent suits, online retailers face allegations of indirect infringement pled on information and belief that generally accuse the retailers of inducing unspecified and unnamed third parties into infringing patents that plaintiffs claim can be read onto some aspect of e-commerce.

Prior to its decision below, the Federal Circuit's inducement test, which required actual knowledge of the allegedly infringed patent, offered a measure of

certainty. Claims' validity could be directly tested by exploring the alleged inducer's actual knowledge. Evidence that the accused retailer did or did not have knowledge of the asserted patent at the time it hired a website design firm or launched its website could settle the question.

For Internet retailers, this certainty was crucial because it is not feasible for them to research and analyze all patents potentially reading on their websites. This is especially true because, until they are sued, Internet retailers generally are unaware of the software and business method patents they are accused of infringing. In many situations, Internet retailers may lack thorough knowledge of how the accused systems work because they do not write the computer code or create the technology that facilitates the consumer interactions – they rely on third parties to provide that functionality. At least until the decision below, Internet retailers could do business without fear of somehow inducing customers or others to infringe unknown patents covering features the retailers did not even create.

The Federal Circuit's decision, however, creates uncertainty by applying a nebulous standard, namely, "deliberate indifference to a known risk" that an infringement may occur. What it takes to avoid liability under this standard is unknown. What *is* known is that it will require a case-by-case analysis of facts bearing on whether the alleged inducer knew that a third party might infringe, yet was "indifferent" to that possibility. This is a daunting prospect for

e-commerce companies that are targeted as perceived deep pockets. Under the hazier "deliberate indifference" standard, even meritless claims will be more likely to survive discovery and summary judgment given the inherent difficulty in disproving "indifference." It leaves Internet retailers with costly and unsatisfactory options, such as thoroughly vetting e-commerce technology so they are not perceived as "indifferent" to inducement risks, or engaging in lengthy litigation through trial concerning their state of mind in order to prove that they were not "indifferent" to such risks.

Internet retailers will not bear these costs alone. They will be passed on to the hundreds of millions of consumers who shop online. And courts will expend more time and resources as even meritless claims are carried to trial on the wings of such a hazy standard. By eliminating the bright-line rule requiring knowledge of the patent and substituting a lesser standard of negligence based on "deliberate indifference," the Federal Circuit has tilted the balance away from lawful commerce and towards confusion. This does not serve the patent laws' goals or the interests of the public. Instead, it will harm consumers through higher prices, and through delay of the spread of technology's benefits, as Internet retailers scale back existing offerings or hesitate to deploy e-commerce innovations for fear of being accused of inducing infringement of unknown patents by their customers or others.

ARGUMENT

THE COURT SHOULD RESTORE THE BRIGHT-LINE STANDARD OF "ACTUAL KNOWLEDGE" FOR INDUCED PATENT INFRINGEMENT TO PROVIDE NEEDED CERTAINTY TO INTERNET RETAILERS AND OTHER BUSINESSES.

Newegg's interest in the outcome of a dispute between competing deep fryer manufacturers is neither abstract nor indirect. The outcome of this lawsuit has the potential to add fuel to the firestorm of non-competitor patent litigation against Internet retailers. Internet retailers have been the frequent target of patent lawsuits filed by non-practicing entities wielding e-commerce patent portfolios, not only because online retailers have performed relatively well even in grim economic times, but also because e-commerce transactions occur in the center of a complicated web of interactions among a number of different participants – the retailers themselves, website developers, retail software providers, web browser software providers, and consumers.

One can see how easy it is to allege – and how hard it is to disprove – that an Internet retailer induced a website developer, a software vendor, or even a customer with a home computer and a web browser to infringe a patent that can arguably be read onto some aspect of a retail website. A diffuse standard of proof based on the defendant's "deliberate indifference" promotes the assertion of this type of claim in a legal landscape in which an Internet retailer now must fear that the launch of its retail

website may also have represented the launch of an ill-defined duty to know something about the approximately 200,000 patents that cover software, an estimated 11,000 of which cover some aspect of the Internet. *See* James Bessen & Michael J. Meurer, *Patent Failure* 8-9, 22 (2008) ("Bessen & Meurer"). If a competing deep fryer manufacturer like Pentalpha with an opinion of counsel in its pocket can be held liable for induced infringement of a patent that its counsel was not able to locate, then what chance does an Internet retailer that is not in the software or web design business have of finding the poisoned needle in a haystack of 200,000 stalks?

Even under an "actual knowledge" state-of-mind requirement, attenuated claims of "induced infringement" are frequently pled in business method or software patent suits, vaguely pointing a finger at "others" or "end users" as the direct infringers allegedly prompted to infringe by retailers. *See, e.g., Bender v. Nat'l Semiconductor Corp.*, 2009 WL 4730896, *3 (N.D. Cal. Dec. 7, 2009) ("customers and others"); *PA Advisors, LLC v. Google, Inc.*, 2008 WL 4136426, *8 (E.D. Tex. Aug. 8, 2008) (generic group of end users); *One World Techs., Ltd. v. Robert Bosch Tool Corp.*, 2004 WL 1576696, *2 (N.D. Ill. July 21, 2004) ("others"); *Fuji Mach. Mfg. Co., Ltd. v. Hover-Davis, Inc.*, 936 F. Supp. 93, 95 (W.D.N.Y. 1996) ("others"). Though there has been hope that the twin lights of *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007), and *Ashcroft v. Iqbal*, 129 S. Ct. 1937 (2009),

might extinguish such ethereal claims, the success rate is a mixed bag at best.

Because it takes a village to raise a website – service providers, software vendors, the retailer, and its customer base – a non-practicing entity asserting a patent infringement claim against an online retailer often raises indirect infringement allegations alongside its direct infringement claims, on the grounds that the retailer induces *someone* (a software vendor, web developer, or customer) to infringe the patent-in-suit. Since a retailer specializes not in web design but in the sale of goods, it nearly always turns out that the retailer has not heard of the patent-in-suit until sued by a non-practicing entity. The problem is exacerbated if the plaintiff is a non-practicing entity that produces no products under its patents or if the claims asserted are method or process claims, because there is generally no marking requirement in such instances and there is nothing in the marketplace to which to compare the accused feature. *See Wine Ry. Appliance Co. v. Enter. Ry. Equip. Co.*, 297 U.S. 387 (1936); *Am. Med. Sys., Inc. v. Med. Eng'g Corp.*, 6 F.3d 1523, 1528 (Fed. Cir. 1993). Thus, Internet retailers find themselves at a treble disadvantage. They are most likely to be sued in a field that is not their primary business (software or web design), by parties least likely to have an obligation to provide public notice of their patents (non-practicing entities that do not make products using their patents), asserting patents for which there is no

marking requirement (software or business method or process claims).

Even so, under the Federal Circuit's *en banc* opinion in *DSU Medical Corp. v. JMS Co. Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006), requiring actual knowledge to prove intent to induce infringement, Internet retailers could take some measure of comfort from the fact that such a claim could be dispatched once the retailer could show that it lacked awareness of the patent it was alleged to have somehow convinced others to violate. *See id.* at 1304 ("The requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.") (citations omitted). Alternatively, if an Internet retailer did have knowledge of the patent, presumably then that would be grounds for concluding that the underlying claim had legs. Either way, the dispositive facts could be developed quickly in discovery.

The effect of the Federal Circuit's opinion in *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360 (Fed. Cir. 2010), however, is to substitute for this clear, bright-line rule a murky standard of "deliberate indifference." *Id.* at 1377 ("The record contains adequate evidence to support a conclusion that [Petitioners] deliberately disregarded a known risk that [Respondent] had a protective patent.") (brackets added). Though the Federal Circuit suggested that, by so doing, it was not changing the legal standard – and that deliberate indifference "is not different from

actual knowledge, but is a form of actual knowledge," *id.* – the decision below has for all practical purposes lowered the bar of necessary proof. Whereas, under *DSU Medical*, actual knowledge ineluctably required knowledge of the patent, under *SEB*, something less (though precisely how much less is unclear) is sufficient to pursue induced infringement claims. *See SEB*, 594 F.3d at 1376-77.

The "deliberate indifference" standard has already muddied the waters of discovery, as plaintiffs are now able to respond to inquiries about the factual bases of their induced infringement claims through references to "information and belief" that defendants have been deliberately indifferent to the existence of the asserted patents. Plaintiffs are now free to admit in discovery that they did not provide notice to the defendants of the pertinent patent until service of the complaint, so long as they also charge the defendants with induced infringement based on allegations of defendants' deliberate indifference to the existence of the very same patents of which those defendants admittedly had no notice before the lawsuit was filed.

We do not want to overstate the problem. Although the new standard necessarily will increase business costs and legal fees, it does not necessarily condemn defendants to liability. We note, for example, that a defense that the retailer cannot possibly direct or control what its customers do on the Internet may negate a finding of joint infringement when customers are a necessary part and parcel of plaintiff's patent

infringement theory, regardless of the state-of-mind standard on which the courts settle. *See Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1329 (Fed. Cir. 2008); *PA Advisors, LLC v. Google, Inc.*, 2010 WL 986618 (E.D. Tex. Mar. 11, 2010) (Rader, J., sitting by designation). But, if the claim instead focuses on anyone, such as software vendors or service providers, over which a retailer arguably might have "direction or control," depending on the facts of their relationship, a standard of deliberate indifference may generate enough ambiguity to carry such gauzy claims along.

For retailers operating an e-commerce business, it is difficult to manage a risk of "deliberate indifference," the limits of which they may not know until a jury tells them. The new, lower standard might require a retailer contracting with a web developer to spend considerable time and resources, including legal fees, to educate itself in the field of website technology, so as to disprove claims that it turned a blind eye to the possibility of patent infringement. Given the thousands of patents that may apply to the Internet, *see* Bessen & Meurer, *supra*, at 8-9, 22, an Internet retailer could easily spend more time and money educating itself about the intricacies of patent law than attempting to make its website more innovative and customer-friendly, or attempting to sell its products and services. "[A]s we have long explained, patents should not 'embaras[s] the honest pursuit of business with fears and apprehensions of concealed

liens and unknown liabilities to lawsuits and vexatious accountings for profits made in good faith.'" *Bilski v. Kappos*, 130 S. Ct. 3218, 3256 (2010) (Stevens, J., concurring in the judgment) (citing *Atlantic Works v. Brady*, 107 U.S. 192, 200 (1883)). Suffice it to say, the patent laws should not be interpreted in a manner that will delay Internet innovation and squelch entrepreneurial efforts, *i.e.*, fail "[t]o promote the Progress of Science and useful Arts[.]" U.S. Const. Art. I, § 8, cl. 8 (brackets added).

"In the area of patents, it is especially important that the law remain stable and clear." *Bilski*, 130 S. Ct. at 3232. In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), a copyright case, this Court cited with approval past precedent from the Federal Circuit and elsewhere that liability for inducement must be based on "active steps . . . taken to encourage direct infringement," *id.* at 936 (citing *Oak Indus., Inc. v. Zenith Elecs. Corp.*, 697 F. Supp. 988, 992 (N.D. Ill. 1988)) (ellipses in original), or instances where one "actively and knowingly aid[s] and abet[s] another's direct infringement," *id.* (citing *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988)) (brackets in original). Recognizing the need to "keep from trenching on regular commerce," 545 U.S. at 937, the emphasis of the *Grokster* Court was barring *active* inducement, which went hand-in-hand with knowledge of and intent to foster infringement. Because the same principles are at stake, the Court should not endorse a standard for

patent cases that undermines the *Grokster* standard in copyright cases.

"Active" inducement is also the hallmark of the statutory provision at issue here. *See* 35 U.S.C. § 271(b) ("Whoever *actively* induces infringement of a patent shall be liable as an infringer.") (emphasis added). The *SEB* standard, however, if affirmed, would represent an endorsement of a *passive* inducement theory based on what retailers *should* have known about business method and software patents in fields far beyond the scope of their primary business. Consistent with *Grokster*, the standard that governs induced infringement of a patent should penalize those who take affirmative steps to prompt others to infringe a patent known to exist. The standard should not, as the *SEB* standard does, paint a target on the backs of retailers that contract with software vendors or web design firms to enter the burgeoning Internet marketplace. Without a doubt, such a rule would create unnecessary uncertainty in the patent laws that would promote and prolong litigation at the expense of innovation.

CONCLUSION

Based upon the foregoing, the Court should reverse the judgment of the Federal Circuit.

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v.

SEB S.A.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF THE SOFTWARE FREEDOM LAW CENTER AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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QUESTION PRESENTED

Whether the Federal Circuit's "deliberate indifference" standard should supplant this Court's standard for the state of mind element of an inducement claim?

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INTEREST OF THE AMICUS CURIAE

Much of the world's most important and commercially significant software is distributed under copyright licensing terms that give recipients freedom to copy, modify and redistribute the software ("free software").[1] One could not send or receive e-mail, surf the World Wide Web, perform a Google search, or take advantage of many of the other benefits offered by the Internet without free software. Indeed, this brief was written entirely with free software word processors, namely OpenOffice.org, GNU Emacs, and LaTeX, each of which are not just competitive with or superior to non-free software programs, but also provide their users with the freedom to improve the program to fit their needs and reflect their desires.

The Software Freedom Law Center ("SFLC") is a not-for-profit legal services organization that provides legal representation and other law-related services to protect and advance free software. SFLC provides pro bono legal services to non-profit free software developers and also helps the general public better understand the legal aspects of free software. SFLC has an interest in this matter because the decision of this Court will have a significant effect on the rights of the free software developers and users SFLC represents. More specifically, SFLC has an interest in ensuring

[1] Pursuant to Sup. Ct. R. 37.6, *amicus* notes that no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae* and its counsel made a monetary contribution to its preparation or submission. Petitioners and Respondents have consented to the filing of this brief through blanket consent letters filed with the Clerk's Office.

that limits are maintained on the reach of patent law so that development of free software is not unreasonably and unnecessarily impeded.

SUMMARY OF ARGUMENT

The Federal Circuit's new standard for induced infringement could expose free software developers to liability from which this Court's standard has traditionally shielded them. This risk would discourage developers from developing free software, impeding the growth of a valuable public good: software that anyone can freely use, copy, modify, and distribute.

Under current law, developers are not subject to direct liability for patent infringement when they produce and distribute free software source code, because computer program source code is merely the expression of abstract ideas, and therefore not itself patentable. These developers' only potential source of liability, then, has been for secondary liability, including for inducing infringement. But the Federal Circuit's standard of culpable knowledge sets the bar to an inducement claim so low as to allow patentees to circumvent the statutory limit on patentability of abstract ideas. Merely by writing software, a developer might become vulnerable to an inducement claim; the patentee would only need to allege some vague awareness of neighboring patents.

In addition to subverting the current limits on patentability, the Federal Circuit's "deliberate indifference" standard replaces the certainty of the previous standard with unknowable liability. A *mens rea* standard requiring "actual knowledge" allows devel-

opers to easily understand their risk of inducing infringement: it is circumscribed by the patents of which they are aware. Most free software developers receive no compensation for their contribution. They cannot afford to retain counsel to evaluate the patent risk of each new improvement they make, or to review all four thousand patents issued every week to be sure that none threaten their work. An indefinite "deliberate indifference" standard might compel them—and indeed all software developers—to do just that.

Free software is particularly vulnerable to this new, uncertain risk. Many developers, faced with the unascertainable (and potentially ruinous) liability imposed on them by the Federal Circuit's standard, may simply stop producing free software for fear of being harassed by patent trolls who sue them for inducing infringement by not thoroughly vetting all patents before releasing new code. And because free software is fundamental to the construction of the Internet, modern consumer electronics, and the information technology infrastructure of nearly every large business, that loss will be devastating to the entire software economy.

ARGUMENT

I. Relaxing the the *mens rea* for Inducement Threatens Free Software Development and Therefore the Entire Software Economy

Free software is produced collaboratively and licensed freely on terms that grant others the freedom to use, copy, modify, and redistribute the software for no cost. This "free software movement" has attracted

countless programmers from around the world to the making of new and innovative software through the social process that for centuries has been the heart of Western science: "share and share alike."

Free software[2] has become arguably the single most influential body of software around the world. Free software operating systems now power everything from cellphones to home appliances to supercomputer clusters. There is no major or minor computer hardware architecture, no class of consumer electronics, no form of network hardware connecting telephone calls, video streams, or anything else transpiring in the network of networks we call "the Internet" that doesn't rely on free software.

Two of the most important innovations in human society during the last decade, the World Wide Web and the Wikipedia, were based on and are now dominated by free software and the idea of free knowledge sharing it represents. Much of this free software development has been undertaken by 26 U.S.C. 501(c)(3) recognized non-profit organizations, developing software as a public good.

This explosion of technical innovation has been made possible for two primary reasons, both jeopardized by the Federal Circuit's deviation from settled law in the case below. First, the principle rule of free software—the sharing of computer program source code—has allowed young people to learn and apply their skills by studying and improving real software doing real jobs in their own and others' daily lives. This process has enabled the incremental improvement of the art by everyone, rather than by the

[2]Free software is sometimes referred to as "open source software."

necessarily small number of programmers working for any one firm with proprietary control of source code. Second, by creating a "protected commons" for the free exchange of ideas embodied in program source code, the copyright licensing innovation known as copyleft—which requires those who take advantage of the grant to use, copy, and redistribute the software to perpetuate these freedoms—has enabled cooperative interactions among competing firms. Each firm has been assured of permanent continuing access to the improvements in program code made by all other firms, which were required to make the source code of those improvements freely available to all users. Thus firms are able to increase their levels of investment in cooperative production and to exchange ideas with academic researchers, secure in the knowledge that those investments would not be appropriated by others claiming exclusive rights.

Free software continues to propel innovation today, allowing software developers to build atop existing source code instead of starting from scratch. This gives users real, immediate power: with access to source code and the right to modify it, developers and users can make the software more useful, remake it into something wholly new, or even turn it into a competing product. For example, there are dozens of successful operating systems built on top of the Linux kernel, such as Red Hat and Novell server systems, Nokia and Google mobile phone operating systems, as well as non-commercial desktop operating systems such as Debian and Ubuntu. Because these rights that free software developers share so freely are ones that competitive entities regard as valuable property, many firms do not offer them to end users at any price.

The Federal Circuit's opinion would likely expand

the patent liability risk to free software. This expansion could chill free software development, discouraging developers, users and firms from producing software that contains these fundamental freedoms, threatening the social and societal benefits that free software provides.

II. Secondary Liability is the Sole Source of Potential Patent Liability for Source Code—Which Embodies Abstract Ideas

Not only does the Federal Circuit's opinion below expand liability generally, it also allows patent holders to reach beyond the limitations this court has consistently imposed on patent eligibility under 35 U.S.C. § 101. Merely by alleging that software developers were deliberately indifferent to their patents, patentees may now use inducement to circumvent the limits long held by this Court that "abstract intellectual concepts are not patentable, as they are the basic tools of scientific and technological work." *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972). To allow the decision below to stand would undermine "the principles underlying the prohibition against patents for 'ideas' or phenomena of nature." *Parker v. Flook*, 437 U.S. 584, 593 (1978).

Since before the Civil War, this Court has consistently made it clear that subject matter which would have the practical effect of preempting laws of nature, abstract ideas or mathematical algorithms is ineligible for patent protection. *See O'Reilly v. Morse*, 56 U.S. (15 How.) 62, 113 (1854); *Benson*, 409 U.S. at 71. Further, in *Microsoft v. AT&T*, this Court stated that abstract software code is an idea without physical em-

bodiment and is merely information—a detailed set of instructions. 550 U.S. 437, 449–450 (2007). A computer program in source code form, no matter what its function, is nothing more or less than the representation of an algorithm. It is not conceptually different from a list of steps written down with pencil and paper for execution by a human being. In no uncertain terms, this Court in *Benson* held that software, which contains and upon command executes algorithms that solve mathematical problems through the use of a computer, is not patent-eligible under 35 U.S.C. § 101. Most recently, *Bilski v. Kappos* reaffirmed these cases by holding that both conceptual and formulaic representations of hedging algorithms were not patentable. 130 S. Ct. 3218, 3231 (2010).

However, that computer program source code standing alone cannot infringe patents does not mean that software developers are insulated from patent liability. Indeed, as this Court taught in *Diamond v. Diehr*, structures or processes may be eligible for patent protection, when considered as a whole, if they perform functions intended to be covered by patent law. Therefore software—embodying abstract ideas—may infringe a patent only when it is rendered executable, and is then used in conjunction with other structures or processes. This result means that producers and distributors of free software, in the absence of personal use, cannot directly infringe patents by merely writing and distributing source code, and so can be subject only to secondary liability.

Until the recent decision by the Federal Circuit, software source code that, for example, could be "compiled" into an executable program that merely read inputs and computed the equation at issue in *Diehr* could not induce infringement of the relevant patent

in absence of industrial application unless the producer possessed knowledge of the patent and was shown to have used "purposeful, culpable expression and conduct" to encourage use of the software to mold rubber. *See MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005). However, the Federal Circuit decision below casts aside this clear standard—opening software producers to unforeseen liability and chilling their incentive to continue producing high quality software free for all to use, modify, and share.

Subjecting software developers to the risk of secondary patent infringement liability renders meaningless their existing protection from risk of direct infringement, because the remedies available to a patentee for inducement are the same. *See* 35 U.S.C. § 271(b). Thus, a patentee can threaten developers with secondary liability even in the absence of a claim of direct patent infringement for the making or selling of the software. This result renders the Court's limitations on patentable subject matter pragmatically irrelevant to working developers, and the Court's defense of pure source code from patenting impotent. The decision of the court below would allow patentees to chill conduct through allegations of inducement of infringement that they could not threaten directly.

III. Federal Circuit's Standard Burdens Free and Open Source Software Developers, Chilling Progress and Innovation

The Federal Circuit's holding below decreases the standard of *mens rea* for inducing patent infringement from knowing, purposeful conduct to "deliberate indifference of a known risk." *SEB SA v. Montgomery*

Ward & Co. Inc., 594 F.3d 1360, 1377 (Fed. Cir. 2010). This standard, easier for plaintiffs to meet,[3] potentially exposes each tinkerer, student, or volunteer programmer—as well as every corporation employing free software engineers—to unforeseeable and unmanageable amounts of liability.

Indeed, free software development is particularly chilled by this standard. Unlike typical production schemes, free software is usually produced by a loose coalition of volunteers, who are otherwise unassociated. For inducement claims, the *mens rea* requirement mitigated this liability, by holding alleged inducers responsible only for purposeful conduct. This mitigating factor, should the Federal Circuit's test stand, would be severely weakened, potentially exposing each developer to uncertain liability, and chilling participation. Because contributor's do not have the resources to conduct an independent patent search on parts of the code with which they may not be familiar, they cannot evaluate their risk in contributing code to a free software project. Many developers of free software derive no compensation for development and distribution of the software, and might stop participating rather than risk liability. This Court should reject the Federal Circuit's test and reaffirm *Grokster's* test, which clearly limits liability to purposeful conduct to induce others.

It has already been empirically demonstrated that applying patents to software has an economically negative effect and results in a net drag on innova-

[3]Indeed, the case below held that the mere fact of an officer of the defendant's firm being well versed in patent law, taken together with other factors, was supported a finding of deliberate indifference and thus inducement of infringement liability. *Montgomery Ward*, 594 F.3d at 1377.

tion in the field. *See* James Bessen & Michael J. Meurer *Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk* (2008). The same social waste results from expanding secondary liability to reach software developers in the absence of active steps to induce infringement.

Adding to the net economic injury of subjecting software source code to potential liability through the back door of inducement, the Federal Circuit creates economic harm through uncertainty by failing to notify the public of what standard of knowledge results in liability, noting that it did not "purport to establish the outer boundaries of knowledge needed for inducement." *SEB SA v. Montgomery Ward & Co. Inc.*, 594 F.3d 1360 1378 (Fed. Cir. 2010). This uncertainty itself chills innovation by exposing developers to unknown risks but giving them no certain way to avoid liability. Justice Stevens, joined by three other members of the Court, recognized the importance of clear and stable guideposts to patent law in his *Bilski* concurrence, noting that "In the area of patents, it is especially important that the law remain stable and clear." 130 S.Ct. at 3231.

The Federal Circuit standard also interferes with the protected commons that is so vital to the free software community. Injecting patent risk into the commons may wither this free resource from which we all benefit. Most free software developers, only loosely associated with one another, donate their time and skills to further free software's public purpose, without desire for compensation. If contributing to a free software project exposes the contributor to uncertain risk, fewer will contribute, producing less incremental improvement and innovation for the public's benefit.

Finally, those volunteers who actually make the

software are often separated by many intermediaries from those who make money off of it, making patent searches unaffordable for most developers. Thus the "deliberate indifference" standard presents free software developers with a choice: face uncertain patent liability for producing source code, or do not contribute at all. This will serve to hold free software projects at a marked disadvantage to their counterparts who produce proprietary software, diminishing their ability to offer their innovations free of charge, impeding progress and increasing the cost of software for all.

CONCLUSION

For the foregoing reasons, the Court should reject the decision below should be reversed.

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AMICUS CURIAE BRIEF

No. 10-6

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On Writ of Certiorari to the
Supreme Court of the
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BRIEF OF *AMICUS CURIAE* WILLIAM MITCHELL COLLEGE OF LAW INTELLECTUAL PROPERTY INSTITUTE IN SUPPORT OF RESPONDENT

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INTEREST OF *AMICUS CURIAE*[1]

The Intellectual Property Institute is an entity within William Mitchell College of Law. The mission of the Institute is to foster and protect innovation through education, research, and service initiatives. Among its activities, the Institute advocates for the responsible development and reform of intellectual property law, including patent laws and the patent system of the United States. A purpose of the Institute is to raise issues and arguments in light of the public interest and the best interests of the patent system as a whole. The Institute has no financial interest in any of the parties to the current action.

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[1]Pursuant to Supreme Court Rule 37.6, no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae* or its counsel made a monetary contribution to its preparation or submission. Additionally, counsel for both parties have consented to the filing of this brief, and their consents have been filed with the Clerk of this Court.

SUMMARY OF ARGUMENT

This case asks the Court to decide what level of knowledge and intent a defendant must hold before liability can attach for inducing infringement under paragraph 271(b) of the patent statute.[2] The basic choice is between two alternatives. Insisting on only a general knowledge and intent would require the defendant only to know of and encourage the particular end activity that the direct infringer is to undertake. Insisting on specific knowledge and intent, in con-trast, would require the defendant additionally to know of the particular patent that will be later sued upon, and to intend that the legal rights of the patent be violated.

The Institute believes that requiring only a general intent is the better choice for several reasons. Several of the briefs filed in support of the Petitioner, for example, leave the impression that United States patent law has long insisted on specific knowledge and intent, and that requiring only general intent represents change. This is incorrect. For most of history, liability under United States patent law required the indirect infringer to possess simply general intent. Knowledge of the patent was not necessary. Viewed historically, therefore, requiring specific intent is the development that is new and out of place.

Limiting indirect infringement to instances of specific intent is also a poor choice because it is inconsis-

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[2] 35 U.S.C. § 271(b).

tent with the general concept of joint tortfeasance, and how that concept applies to other areas of the law. Insisting on specific intent would permit potential indirect infringers to avoid liability simply by being ignorant of their duties under the law. It would also place patent law at odds with some areas of tort law that are otherwise structured similarly.

Finally, limiting inducing infringement to instances of specific knowledge and intent likely will be both ineffective and difficult to administer. The rule would encourage potential litigants to behave tactically. It is also over-broad when viewed in light of the underlying interests of many proponents.

ARGUMENT

A. The Insistence that Indirect Infringement Include Specific Intent Has Developed Only Recently

Several *amici* assert that United States patent law traditionally has limited indirect patent infringement to situations where the indirect infringer knew of the patent being infringed. This is incorrect. Instead, for most of its history the law has not required such specific knowledge; to the contrary, it has been sufficient for the indirect infringer simply to know of the end activity in which the aided infringer was engaged. In reality, therefore, the rule limiting liability to instances of specific knowledge and intent has arisen only recently.

1. The Rule as Applied to Paragraph 271(b) Was Established Only in *DSU Medical Corp. v. JMS Co., Ltd.*

Confirmation that specific intent is only a recent requirement can be seen in the law specific to inducing infringement, under the paragraph 271(b) of the patent statute.[3] Specific intent became required there only in 2006, when the United States Court of Appeals handed down *DSU Medical Corp. v. JMS Co., Ltd.*[4] Prior to that time decisions of that court had treated the issue variously.[5]

2. Prior to 1952 Liability for Indirect Infringement Did Not Require Specific Knowledge or Intent

More generally, sources show that specific knowledge and intent were not predicates to liability even when when indirect patent infringement was in its infancy. A clear of example of this is *Ruth v. Stearns-Roger Mfg.*

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[3]35 U.S.C. § 271(b).

[4]*DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006) (*en banc* in part).

[5]*See, e.g., Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354 (Fed. Cir. 2006); *nCube Corp. v. Seachange Intern., Inc.*, 436 F.3d 1317 (Fed. Cir. 2006); *MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369 (Fed. Cir. 2005).

Co.[6] The case report there reproduces verbatim the opinion of the special master, in an action for patent infringement, on the accounting of profits. The opinion begins the period of accounting on the date that the patent owner began properly marking embodiments of the patented invention,[7] even though the accused infringer did not receive actual notice of the patent in suit until later.[8] The master's award of profits from contributory infringement includes activities during this interim period – at which time the accused infringer clearly could not have had specific knowledge and intent.[9]

The infringer in *Ruth v. Stearns-Roger* challenged many aspects of the special master's opinion.[10] Yet it did not object to the award of contributory infringement profits from this early period. Instead, the propriety of

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[6]*Ruth v. Stearns-Roger Mfg. Co.*, 13 F.Supp. 697 (D. Colo. 1935).

[7]As required at the time by Rev. Stat. § 4900.

[8]*See, e.g., Ruth v. Stearns-Roger Mfg. Co.*, 13 F.Supp. 697, 699 (D. Colo. 1935) ("The infringing or accounting period begins on June 28, 1928, at which time Ruth caused to be attached to flotation machines manufactured and sold by him patent notice plates. From and after November 30, 1928, Stearns-Roger had actual notice of the patent in suit.").

[9]*See, e.g., Ruth v. Stearns-Roger Mfg. Co.*, 13 F.Supp. 697, 702-04 (D. Colo. 1935) (entries in Tables F and G).

[10]*See, e.g., Ruth v. Stearns-Roger Mfg. Co.*, 13 F.Supp. 697, 710-17 (D. Colo. 1935).

that aspect of the award was simply accepted by both parties. This was so, even though the decision presents an extended discussion of other aspects of the intent required to support a determination of contributory infringement.[11]

This view of the early law is entirely consistent with more commonly known, lead authorities from the time, such as *Wallace v. Holmes*.[12] That decision simply does not address whether the minimum knowledge and intent required for indirect infringement is either general or specific; the issue was not before the court.

Indeed, to the extent that the decision points to a rule, it is that merely general knowledge and intent will suffice. Contrary to the impression left by several *amici*, the defendants' "certain knowledge" that *Wallace* refers to is actually general knowledge of how the lamp burner sold by the defendants was being used by customers, and not whether that use violated any right in a patent:

> [T]hey [the accused indirect infringers] . . . have, to their utmost ability, occupied the market, with the certain knowledge that such burners are to be used, as they can only be used, by the addition of a chimney.[13]

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[11] *See, e.g., Ruth v. Stearns-Roger Mfg. Co.*, 13 F.Supp. 697, 713 (D. Colo. 1935).

[12] *Wallace v. Holmes*, 29 F.Cas. 74 (C.C. Conn. 1871).

[13] *Wallace v. Holmes*, 29 F.Cas. 74, 80 (C.C. Conn. 1871).

In fact, the clear focus of *Wallace* is on the defendants' knowledge and purpose that their component be put to a completed end use.[14] There is no discussion of whether the defendants knew of the patent later put into suit.

This Court's 1907 decision in *Cortelyou v. Charles Eneu Johnson & Co.*[15] is not to the contrary. *Cortelyou* is member of a class of cases that dealt with the special circumstance in which direct infringement was alleged to have arisen from the handling of a particular patented machine made by or under the authorization of

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[14]*See, e.g., Wallace v. Holmes*, 29 F.Cas. 74, 80 (C.C. Conn. 1871) ("Here, the actual concert with others is a certain inference from the nature of the case, and the distinct efforts of the defendants to bring the burner in question into use, which can only be done by adding the chimney. The defendants have not, perhaps, made an actual pre-arrangement with any particular person to supply the chimney to be added to the burner; but, every sale they make is a proposal to the purchaser to do this, and his purchase is a consent with the defendants that he will do it, or cause it to be done. The defendants are, therefore, active parties to the whole infringement, consenting and acting to that end, manufacturing and selling for that purpose.").

See also, e.g., Thomson-Houston Elec. Co. v. Ohio Brass Co., 80 F. 712, 721 (6th Cir. 1897) (Taft, J.) ("It is well settled that where one makes and sells one element of a combination covered by a patent with the intention and for the purpose of bringing about its use in such a combination he is guilty of contributory infringement and is equally liable to the patentee with him who in fact organizes the complete combination.").

[15]*Cortelyou v. Charles Eneu Johnson & Co.*, 207 U.S. 196 (1907).

the patent owner.[16] The patent owner's assertion in these cases was that direct infringement occurred because the patent owner, when the machine was originally sold, had restricted how the particular machine could be used, and that as a consequence the same restrictions followed the machine throughout its lifespan in commerce.[17] During the late 19th and early 20th Century these restrictions were given legal effect by the courts, provided that those who later encountered the particular machine had adequate notice of the patent owner's original restrictions on the permitted use.[18]

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[16] *See, e.g., Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288 (6th Cir. 1896); *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

There are actually reports of many such cases from the period.

[17] *See, e.g., Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 290-91 (6th Cir. 1896) ("[T]he complainant . . . charges that every sale has been under an express restriction as to the use of the invention embodied in the machine. . . . The buyer of the machine undoubtedly obtains the title to the materials embodying the invention, subject to a reverter in case of violation of the conditions of the sale. But, as to the right to use the invention, he is obviously a mere licensee, having no interest in the monopoly granted by the letters patent. . . . All alienations of a mere right to use the invention operate only as licenses. It must follow, therefore, that the purchaser of one of complainant's machines subject to a restricted use takes the structure with a license to use the invention only with staples made by the patentee.").

[18] *See, e.g., Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 290-91 (6th Cir. 1896); *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912).

The *Cortelyou* decision is one such case from this time period. As such, it is inapposite to the present case. Here, the infringing machines were not built under the patent owner's authority. In addition, the basic proposition behind the entire line of earlier cases were overturned by this Court shortly after *Cortelyou* was decided, in decisions such as *Bauer & Cie v. O'Donnell,*[19] and *Motion Picture Patents Co. v. Universal Film Mfg. Co.*[20] Viewed accurately, the discussion of notice in *Cortelyou* has no relevance to the current dispute.

The view that indirect infringement required only general knowledge and intent continued to predominate even during legislative consideration of the Patent Act of 1952. It is well known, for example, that this was the view of Giles S. Rich, who testified at hearings on H.R. 3760 of the eighty-second Congress.[21] A more direct expression, however, occurred during his testimony on the immeditately preceding bill, H.R. 3866 of the eighty-

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See also Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 514 (1917).

[19]*Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1913).

[20]*Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 514 (1917).

[21]Statement of Giles S. Rich, Hearings on H.R. 3760 Before Subcommittee No. 3 of the House Committee on the Judiciary, 82nd Cong., 1st Sess, 159-60, 175-176 (June 15, 1951).
See, e.g., Freedman v. Friedman, 242 F.2d 364 (4th Cir. 1957).

first Congress, which was limited specifically to the issue of indirect infringement. There, the following exchange occurred:

> Mr. Rich. . . . Section 3, which is the principal section of the first part of the bill, Mr. Stedman [of the Justice Department] said works two fundamental changes in the law. He says that it would catch unintentional contributory infringers. Well, I can see nothing wrong in catching an unintentional contributory infringer so long as it is the law that you can catch an unintentional direct infringer, which is the law according to my understanding. Anyone who makes, uses, or sells an infringement of a patent, whether or not he knows of the patent or intends to commit infringement, is liable.
>
> So, if a person who sells something especially adapted for infringing use, and having no actual commercial noninfringing use, does that act without intent to infringe, why should we not hold him likewise?
>
> Mr. Willis. That is true in all tort law. You don't have to have an intent; do you?
>
> Mr. Rich. That is right.[22]

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[22]Statement of Giles S. Rich, Hearings on H.R. 3866 Before Subcommittee No. 4 of the House Committee on the Judiciary, 81st Cong., 1st Sess, 66-67 (June 3, 1949).

3. Specific Knowledge and Intent Are Not Required by the Patent Act of 1952

Congress's passage of the Patent Act of 1952[23] did not change this state of affairs. The language of paragraph 271(c),[24] for example, most naturally reads as requiring only general knowledge. Semantically, the phrase "knowing the same to be especially made or especially adapted for use in an infringement of such patent" refers to knowledge about an inherent quality of the component, material or apparatus in question. It does not refer to any specific intent. The term "infringement," moreover, is broad enough to encompass simply the customer's end activity, which is later determined to fall within the scope of a validly existing patent right. Again, it does not require that the particular patent already be known.

In addition to being consistent with the statute's plain language, this reading also fits neatly with provision's legislative history. The hearings leading up to the final language of section 271 refer consistently to fears by some that Congress might extend liability for contributory infringement to manufacturers who custom-fabricated parts or chemicals in response to customer specifications, without knowing the end use to which

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[23]Patent Act of 1952, Pub. L. No. 82-593, ch. 950, 82nd Cong., 2nd Sess., 66 Stat. 792 (July 19, 1952).

[24]35 U.S.C. § 271(c).

the parts were to be put.[25] The concern was put forward in particular by I.E. McCabe, the principal of Mercoid Corp.,[26] which at that time had just escaped liability for contributory infringement in two decisions of this Court, *Mercoid Corp. v. Mid-Continent Inv. Co.*,[27] and *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*[28]

These manufacturers were concerned that their bare sales of custom-designed components would expose them to liability, initially because the early versions of the statutory language had no express knowledge requirement at all,[29] and later because as first introduced the term "knowingly" risked being applied simply

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[25] *See, e.g.*, Hearings on H.R. 3760 Before Subcommittee No. 3 of the House Committee on the Judiciary, 82nd Cong., 1st Sess, 159-161 (June 15, 1951) (referencing letters from concerned parties to members of Congress; referencing concerns of chemical suppliers expressed during drafting process).

[26] *See, e.g.*, Statement of I.E. McCabe, Hearings on H.R. 3866 Before Subcommittee No. 4 of the House Committee on the Judiciary, 81st Cong., 1st Sess, 39 (June 3, 1949); Statement of I.E. McCabe, Hearings on H.R. 3760 Before Subcommittee No. 3 of the House Committee on the Judiciary, 82nd Cong., 1st Sess, 137 (June 15, 1951).

[27] *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944).

[28] *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944).

[29] *See, e.g.*, text of H.R. 3866, reproduced at Hearings on H.R. 3866 Before Subcommittee No. 4 of the House Committee on the Judiciary, 81st Cong., 1st Sess, 1 (May 25, 1949).

to the act of selling, and not to the component's inherent capability for infringement.[30]

The conclusion that Congress intended to address the concerns of these entities correlates well with the initial introduction of the term "knowingly" into the early part of paragraph (c) in H.R. 3760, and then the later shift of the term to the position it currently holds, where it speaks of the capability of the component being sold. Notably, in neither situation does "knowing" refer at all to the sort of specific intent that the Petitioner suggests in this case.

This view is fully consistent with the language in the eventual Senate Report, that paragraph (c) of section 271 is "much more restricted than many proponents of contributory infringement believe should be in the case."[31] Some have attempted to press this statement into service in the present dispute, characterizing it as Congress's comment on a dispute during the hearings between Judge Rich and some representatives of the

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[30]*See* text of section 231 of H.R. 3760, reproduced at Hearings on H.R. 3760 Before Subcommittee No. 3 of the House Committee on the Judiciary, 82nd Cong., 1st Sess, 13 (June 13-15, 1951).

[31]Senate Report No. 82-1979, 82nd Cong., 2nd Sess (June 27, 1952) ("This latter paragraph is much more restricted than many proponents of contributory infringement believe should be in the case. The sale of a component of a patented machine, etc., must constitute a material part of the invention and must be known to be especially made or especially adapted for use in the infringement before there can be contributory infringement, and likewise the sale of staple articles of commerce suitable for noninfringement use does not constitute contributory infringement.").

Justice Department in the precise issue of general vs. specific intent.[32] Examined dispassionately, however, the statement does not carry this meaning. At the time of the hearings interested persons held a very wide array of opinions about how the doctrine of contributory infringement should be codified, and in particular some entities urged the extreme position that liability should extend to those who simply sold non-material, staple articles of commerce, to customers who later used them to infringe.[33]

When viewed in this light it is clear that the above-quoted language in the Senate Report is not speaking of the narrow issue now before this Court. Rather, it is referencing the approach in section 271 to contributory infringement overall. This is confirmed by the next sentence in the Report, which lists the section's resolution of those larger issues:

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[32] *See, e.g.*, Statement of Wilbur Fugate, Hearings on H.R. 3760 Before Subcommittee No. 3 of the House Committee on the Judiciary, 82nd Cong., 1st Sess, 162 (June 15, 1951).

Representatives of the Justice Department also testified at the two earlier hearings on bills leading up to H.R. 3760. The testimony of the Justice Department representatives was not consistent across the three hearings.

[33] *See, e.g.*, Statement of Stephen Cerstvik, Hearings on H.R. 3866 Before Subcommittee No. 4 of the House Committee on the Judiciary, 81st Cong., 1st Sess, 26 (May 25, 1949).

See also Statement of Giles S. Rich, Hearings on H.R. 3866 Before Subcommittee No. 4 of the House Committee on the Judiciary, 81st Cong., 1st Sess, 1, 64 (June 3, 1949) (referencing variety of opinions held by interested persons).

> The sale of a component of a patented machine, etc., must constitute a material part of the invention and must be known to be especially made or especially adapted for use in the infringement before there can be contributory infringement, and likewise the sale of staple articles of commerce suitable for noninfringement use does not constitute contributory infringement.[34]

This view of the Patent Act of 1952 is confirmed by the authorities in the years immediately afterward. Most of those authorities did not understand Congress as having limited contributory infringement to specific knowledge and intent. Instead, they continued to assert that liability could be imposed even where the defendant's knowledge and intent had been only general.[35]

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[34]Senate Report No. 82-1979, 82nd Cong., 2nd Sess (June 27, 1952) ("This latter paragraph is much more restricted than many proponents of contributory infringement believe should be in the case.").

[35]*See, e.g., Freedman v. Friedman*, 242 F.2d 364 (4th Cir. 1957) ("[T]here is no indication of any intent [by Congress] to make knowledge that there was a patent and that it was being infringed necessary to liability for contributory infringement. . . . The intent necessary is intent that the article sold shall be used in the article or process which constitutes infringement, not that the seller must know or intend that a patent will be infringed by the article or process."). *See also Freedman v. Overseas Scientific Corp.*, 248 F.2d 274 (2nd Cir. 1957).

See also, e.g., Wetzel, James M., *The New Approach to Infringement – 271*, 46 J. Pat. & Tm. Off. Soc'y. 631, 638-39 (1964).

Compare Buxton Inc. v. Julen Inc., 223 F.Supp. 697 (D.C.N.Y. 1963) (dicta).

That understanding was consistent with another section of the patent act, 287, which expressly regulates the notice that patent owner and accused infringer must give and receive, respectively, for liability for infringement to attach.[36] The arrangement that section 287 prescribes is different from the specific knowledge and intent that Petitioner now seeks to read into paragraph 271(b).

4. The Insistence on Specific Knowledge and Intent Arose Only With This Court's Decision in *Aro II*

Viewed accurately, then, contributory infringement in United States patent law did not become limited to instances of specific knowledge and intent until this Court's 1964 decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.* ("*Aro II*").[37] Frankly, that aspect of the holding in *Aro II* is notorious.[38] The majority

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[36] 35 U.S.C. § 287.

[37] *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964) ("*Aro II*").

See also Aro Mfg. Co., Inc. v. Convertible Top Replacement Co., Inc., 375 U.S. 804 (1963) ("*Aro I*").

[38] *Aro II* involved a patent owner's attempt to salvage a narrower range of recovery in action for contributory infringement, where the majority of the damages has been precluded in *Aro I* under the doctrine of permissible repair. Most of the lead opinion in *Aro II* is a 5-4 decision holding that this narrower set of recoveries is permissible. See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 482 n.3 (1964). But for a very

opinion asserts that the issue of whether to impose the elevated knowledge requirement was "apparently not noticed by the parties or the courts below."[39] Four Justices dissented from the holding.[40] Secondary authorities noted the change in the law immediately, and spoke of it critically.[41] One author asserted that his "examination of the complete record in [the] case as deposited in the Library of Congress . . . showed that the knowledge issue was never raised by either party at any stage of the proceedings, nor was the point briefed by

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brief passage in *Aro II* – the last full paragraph at 377 U.S. 488, the paragraph bridging to 377 U.S. 489, and accompanying footnote 8 – the voting configuration of the Justices changes drastically. There, the four dissenting Justices joined one Justice from the majority elsewhere, and held that contributory infringement requires specific knowledge and intent. On this basis a substantial portion of the remaining, narrower recovery was denied. The four Justices who were in the majority elsewhere record their dissent in footnote 8.

[39]*Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964).

[40]The four dissenting Justices record their dissent in footnote 8 of the main opinion. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 n.8 (1964).

[41]*See, e.g.*, Wetzel, James M., *Re: "The New Approach to Infringement,"* 47 J. Pat. & Tm. Off. Soc'y. 57-58 (1965) (noting effect of *Aro II* on assertions regarding knowledge and intent in 46 J. Pat. & Tm. Off. Soc'y. 631, 638-39 (1964)); Moseley, David Lee, *The Knowledge Requirement of Contributory Infringement and the* Aro *Case*, 47 J. Pat. & Tm. Off. Soc'y. 98 (1965).

either party at any stage of the proceedings."[42]

B. Incorporating Specific Intent into Paragraph 271(b) is Contrary to General Legal Principles

Conditioning liability for inducing infringement on specific knowledge and intent is also a poor idea because it draws patent law into conflict with established law in other areas. At its root, such a limitation would preclude liability where the defendant simply lacked knowledge of his or her legal duty. Yet, as this Court recognized last year, United States law has "long recognized the 'common maxim, familiar to all minds, that ignorance of the law will not excuse any person, either civilly or criminally.' . . . Our law is therefore no stranger to the possibility that an act may be 'intentional' for purposes of civil liability, even if the actor lacked actual knowledge that her conduct violated the law."[43] Adopting a requirement of specific knowledge and intent would thus place the law of liability for inducing infringement at odds with these basic principles.

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[42]Moseley, David Lee, *The Knowledge Requirement of Contributory Infringement and the* Aro *Case*, 47 J. Pat. & Tm. Off. Soc'y. 98, 101 n.7 (1965).

[43]*Jerman v. Carlisle, McNellie, Rini, Kramer & Ulrich LPA*, ___ U.S. ___, 130 S.Ct. 1605, 1611-12 (2010) (quoting *Barlow v. United States*, 7 Pet. 404, 411 (1833) (opinion for the Court by Story, J.)).

This general conflict can be illustrated by specific examples. It is well settled that the imposition of liability for inducing infringement in patent law is a specific example of the overall principle of joint tortfeasance.[44] As a general proposition in tort law, one is liable for the tortious harm caused by another "if he . . . does a tortious act in concert with the other or pursuant to a common design with him."[45] Applying this principle to patent infringement would make liability for inducing infringement depend simply on whether the inducer had acted "in concert" with the actor who had infringed directly. It would not impose a requirement of specific knowledge and intent.

An even closer analogy from torts is the law of trespass. Both trespass and patent infringement impose direct liability on one who enters the property of another, regardless of whether the actor knew the entry was wrongful. Thus, for example, one can directly infringe the patent rights of another, even though the actor is completely unaware of the patent owner's

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[44] *See, e.g., Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 500 (1964) ("It is true that a contributory infringer is a species of joint-tortfeasor . . . .") (citing *Wallace v. Holmes*, 29 F. Cas. 74, No. 17100 (C.C.D. Conn. 1871)); *Stearns v. Tinker & Rasor*, 252 F.2d 589, 601 (9th Cir. 1957).

See also, e.g., Rich, Giles S., *Infringement Under Section 271 of the Patent Act of 1952*, 21 Geo. Wash. L. Rev. 521, 525 (1953) ("Contributory infringement is an expression of the old common-law doctrine of joint tort feasors . . . .").

See generally also, Glenayre Electronics, Inc. v. Jackson, 443 F.3d 851, 876 (Fed. Cir. 2006).

[45] Restatement (2nd) Torts § 876(a).

rights.[46] By close analogy, it is well settled that liability in trespass extends to one who voluntarily intrudes into the land of another, even if the actor mistakenly believes his entry is under some right or privilege.[47]

As in patent law, the principle of joint tortfeasance has been held applicable to trespass.[48] "If, by any act of his, the actor intentionally causes a third person to enter land, he is as fully liable as though he himself enters."[49] As the Restatement recognizes, this rule "is an application of the general principle that one who intentionally causes another to do an act is under the same liability as though he himself does the act in question."[50]

The comments to section 164 of the Restatement,

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[46] *See, e.g.*, *Parker v. Hulme*, 18 F. Cas. 1138, 1143, No. 10740 (C.C.E.D. Pa. 1849); *Matthews v. Skates*, 16 F. Cas. 1133, 1135, No. 9291 (C.C.S.D. Ala. 1860); *Warner-Jenkinson Co., Inc. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 35 (1997); *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627, 645 (1999).

[47] *See, e.g.*, Restatement (2nd) Torts § 164 and Comment e (1963-1964) (Intrusions Under Mistake).
See, e.g., *Jerman v. Carlisle, McNellie, Rini, Kramer & Ulrich LPA*, ___ U.S. ___, 130 S.Ct. 1605, 1612 (2010)

[48] *See, e.g.*, Restatement (2nd) Torts § 158 and Comment j (1963-1964) (Causing entry of a third person).

[49] Comment j, Restatement (2nd) Torts § 158 (1963-1964).

[50] Comment j, Restatement (2nd) Torts § 158 (1963-1964).

which clarify that one's intrusion into another's land is "intentional" even if done under mistake of right,[61] expressly note that this same general intent applies when determining the liability of a joint tortfeasor.[62] That is, the joint tortfeasor may be liable even if she, too, was unaware that the direct tortfeasor's actions amounted to an actionable trespass.

The analogy by which these rules should apply to patent infringement is plain. Just as trespass insists on only general knowledge and intent from a joint tortfeasor, so too patent law should only insist on general knowledge and intent from one who has acted in concert with a direct infringer.

C. The Underlying Concerns of the Other *Amici* are Best Addressed by Clarifying Other Areas of Patent Law

The present case is an inappropriate vehicle to address the concerns that underlie the participation of many of the *amici*. In general, these *amici* are engaged in business activities that make them potential defendants in actions for indirect patent infringement. They are struggling because the case law has not articulated well the level of active cooperation that distinguishes one who has induced patent infringement, from one who

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[61] *See* Comment a, Restatement (2nd) Torts § 164 (1963-64).

[62] *See* Comment d and Illustration 9, Restatement (2nd) Torts § 164 (1963-64).

has merely sold non-material or non-staple components customers. Thus, they face uncertainty as to whether they will be held liable for indirect infringement.

In addition, the case law has not yet treated adequately, when indirect infringement is found, how damages should be apportioned between the direct and indirect infringers. Thus, the *amici* risk being held liable for most or all of the patent owner's economic losses due to infringement, even though as indirect infringers they may have supplied only a small part of the overall infringing combination.[53]

Unfortunately, the present case is a very poor vehicle by which to address these concerns. In the present case, for example, the Petitioner supplied its customers with the entire infringing appliance for resale in the United States. The customers thereafter did exactly that. Thus, there is no question that the Petitioner has cooperated with its customers actively and purposefully enough to meet the relevant aspects of the definition of inducement.

Similarly, because the Petitioner supplied the entire infringing apparatus to its customers, the case presents no real issue of apportionment between the direct and indirect infringers. This is not a case in which the

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[53] *See generally, e.g., Cornell Research Foundation, Inc. v. Hewlett-Packard Co.*, 2007 WL 4349135 (N.D.N.Y. 2007); *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009); *Uniloc USA, Inc. v. Microsoft Corp.*, --- F.3d ----, 2011 WL 9738 (Fed. Cir. 2011).

indirect infringer's contribution is only a small part of a much larger whole.

As a consequence, the present case demonstrates forcefully why the *amici's* underlying concerns cannot be addressed obliquely, by elevating the level of knowledge and intent required for inducing infringement overall. The rule that would result from that tactic would be too inclusive; it would lift liability for indirect infringement in situations where neither of the concerns is truly present, and where the traditional need for indirect infringement liability is clear.

In fact, the decisions of the lower courts in this particular case are precisely what one would expect to evolve from such a misguided effort. The rule as stated in its basic form is too easy to evade; well-informed and foresightful litigants will be too able to erect circumstances where the relevant policies call for liability to be imposed, but where the application of the rule calls for a different result. Faced with these situations, the courts inevitably will feel pressure to embellish the basic rule with exceptions. The result will be an area of law that grows increasingly complicated, unpredictable, and illogical.

The far better course is to decline to use the present case as a vehicle for assisting the *amici*, and to instead address their concerns directly in appropriate future cases.

II. CONCLUSION

For the foregoing reasons, the Institute respectfully urges the Court to hold that inducing infringement under 271(b) not require proof that the defendant possessed either specific knowledge of the patent later sued upon, or a specific intent to engage in activities known to be infringing. It urges the Court to hold instead that inducing infringement can be established with proof that the defendant knew of and encouraged

the particular activities undertaken by the party who directly infringed. It urges that the decision of the court below be affirmed on that basis.

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AMICUS CURIAE BRIEF

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No. 10-6

IN THE
Supreme Court of the United States

GLOBAL-TECH APPLIANCES, INC. AND
PENTALPHA ENTERPRISES, LTD.,
Petitioners,

v.

SEB S.A.,
Respondent.

On Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

BRIEF OF YAHOO! INC., EBAY INC., ELECTRONIC ARTS INC., GENERAL MOTORS LLC, HEWLETT PACKARD COMPANY, MCAFEE, INC., RED HAT, INC., AND SYMANTEC CORPORATION AS *AMICI CURIAE* IN SUPPORT OF PETITIONERS

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INTEREST OF AMICI CURIAE[1]

Amici are a diverse group of innovative companies with a shared interest in a balanced patent system. Each company is an intellectual property owner with innovative products that compete successfully in the marketplace. As such, they each appreciate from experience the need for healthy market competition unimpeded by the threat of excessive patent litigation as well as the importance of respect for valid patent rights.

The doctrine of inducement infringement, if bounded properly, plays a critical role in protecting the balance between patent enforcement and the free commerce in new and innovative goods and services. This balance is threatened, for example, when a market participant is exposed to all the burden of patent litigation for their support of their legitimate multi-purpose products when they do not even know that their products are being used by *others* to infringe and they have no culpable purpose to promote infringement. But the decision below creates such a threat. Accordingly, Amici submit this brief in the hope that it is helpful to this Court in restoring balance to the doctrine of inducement infringement.

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[1] The parties have consented to the filing of this brief. Their consent letters have been filed with the court. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *Amici Curiae*, its members, or its counsel, made a monetary contribution to the preparation or submission of this brief.

SUMMARY OF ARGUMENT

The Question Presented asks whether *Grokster's* "purposeful," "culpable" state of mind test for inducement infringement applies to patent cases rather than the "deliberate indifference" test created by the Federal Circuit. It should for the following good reasons.

First, this Court has steadfastly protected legitimate commerce from secondary liability absent proof of a culpable purpose to promote an unlawful objective. In *Grokster*, this Court emphasized the wisdom of limiting secondary liability to the truly culpable given 'the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential." *Metro-Golden-Mayer Studios Inc. v. Grokster*, 545 U.S. 913, 937 (2005). The importance of safeguarding innovators who engage in legitimate commerce is no less applicable to Section 271(b) of the patent code than to copyright law. Determining secondary liability in both areas involves an analysis of the circumstances under which it is reasonable and fair to hold one individual accountable for the actions of another.

Second, the Federal Circuit panel's newly minted "deliberate indifference" test is inconsistent with this Court's *Grokster* decision and the legal principles upon with that decision is based. In creating its new test, the Federal Circuit opinion failed to acknowledge the culpable purpose requirements of *Grokster*. In fact it did not even cite that decision. Although the Federal Circuit suggested that "deliberate indifference" is a form of

"specific intent," which could be consistent with *Grokster*, it repeatedly used the language of *negligence* to describe its test. Indeed, it improperly applied a negligence test.

Third, to find culpable purpose, at a minimum there must be proof of knowledge of infringement, which in turn requires at least knowledge of the specific patent and that the patent covers the allegedly infringing activity. Absent such actual knowledge there is no purpose to promote infringement violations. Because of the complexities and ambiguities endemic to patent analysis and because of the ubiquity of patents, a general knowledge of a patent or the potential that a product may encounter patent conflicts is necessarily insufficient to prove culpable purpose to promote infringement violations.

Fourth, a negligence-type standard such as that applied below is not only inconsistent with this Court's authority, it would discourage innovation and beneficial commerce. Such a rule would siphon resources that could be used to innovate or to ensure that there is no infringement when proper notice is given of potential infringement. Specifically, companies offering products that do not infringe would be forced to expend limited corporate resources to cope with an expansion of potential inducement infringement assertions based on all the ways their customers might use their products. Given the growing problem of over-aggressive patent enforcement, this unwarranted expansion of liability and creation of a large gray zone, threatens to chill innovation and waste resources in a time of shrinking research and development budgets.

In sum, this Court should ensure that secondary liability is not imposed on those who create and distribute multi-purpose products that do not infringe any patents unless they act with the culpable purpose to encourage others to use those products in ways that they know to be unlawful.

ARGUMENT

I. SECONDARY LIABILITY FOR INDUCEMENT REQUIRES A CULPABLE PURPOSE TO ENCOURAGE UNLAWFUL ACTS

This Court has long supervised the development of the law of secondary liability for infringement. When faced with the issue, this Court has acted with caution, recognizing the "problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U. S. 417, 435 (1984). The central theme of this Court's jurisprudence in this area has been to maintain a just and healthy balance so that valid rights can, under proper circumstances, be enforced even against those who are not committing the underlying violation – but *without* stifling legitimate and pro-competitive commerce in goods with many lawful uses.

The most recent and relevant precedent on this subject is *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005). Interestingly, the Grokster music swapping service at issue affirmatively encouraged the underlying acts of copyright infringement by promoting heavily the

copying of *both* copyrighted and uncopyrighted works. But that active encouragement of *acts* that were undisputedly infringing was not enough to justify secondary liability under an inducement theory. Instead, this Court ruled inducement liability turned on whether the secondary actor exhibited a culpable purpose to promote law-breaking with knowledge of the infringement – not just to promote acts that happened to violate the law. The essence of this Court's ruling was that it is fair to require culpable purpose before holding one person responsible for the damage that is caused by the legal violation of another.

Grokster's "unmistakable" unlawful objective was critical to the Court's analysis. *Grokster*, 545 U.S. at 940. This Court made clear that there must be a "culpable" state of mind to foster the legal wrong of infringement, using language of unlawful purpose throughout its opinion:

- "fault-based,"
- "unlawful purpose,"
- "foster infringement,"
- "purposeful, culpable expression and conduct,"
- "designed to stimulate others to commit violations,"
- "unlawful purpose,"
- "unlawful purpose disqualifies him from claiming protection,"
- "purpose to cause copyright violations,"

- "unlawful objective,"
- "unlawful intent,"
- "illegal objective."

See generally, id.

As the Federal Circuit summarized *en banc* in *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006), "*Grokster* has clarified that the intent requirement for inducement requires more than just intent to cause the acts that produce direct infringement....the inducer must have an affirmative intent to cause direct infringement."

In confirming the culpable purpose requirement, this Court explained that it is necessary for fairness and balance when holding one entity responsible for the legal violations of another. This Court promised that inducement infringement "will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective." *Grokster*, 545 U.S. at 941. The Court explained that, because there is only liability for "purposeful, culpable expression and conduct," inducement infringement law "does nothing to compromise legitimate commerce or discourage innovation having a lawful promise." *Id.* at 937. Further, this Court noted that this rule is a safeguard "to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential." *Id.*

These basic principles of fairness apply with no less force to patent law. At the outset, as a matter of logic, the culpable purpose requirement of *Grokster* applies to patent law. *Grokster* expressly

borrowed the inducement law that it applied to copyright law in Grokster *from* patent law, much as the Court in *Sony* acknowledged the "historic kinship" between patent and copyright law. *See Grokster*, 545 U.S. at 936 ("*Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright"). If *Grokster* borrowed the state of mind principles for inducement infringement from patent law, that is an explicit recognition that these principles apply to patent law. In deriving the culpable purpose requirement from patent law in *Grokster*, this Court traced the history of the requirement of culpable intent in patent law in cases new and old. *See id.* ("The [patent] rule on inducement of infringement as developed in the early cases is no different today.").

Put simply, the two most recent and fundamental cases from this Court addressing secondary liability, *Sony* and *Grokster*, both applied the same basic principles and framework to patent and copyright law with an eye towards consistency. This case should be no different and should respect the "historic kinship" between these two areas of the law by applying the culpable purpose rule in patent law with no less certainty than it did in *Grokster*.

Functionally, the protection of free commerce in innovative products is no less deserving of safeguards in patent law as in copyright law. The proliferation of flexible, multi-functional, and configurable products is core to our national prosperity and competitiveness. Each of us encounters and benefits from such products everyday. Producers of such powerful products pride themselves on their

robust and assiduous support of their products for all the potential and varied uses to which they are put. The diversity and extent of the uses of modern, multi-purpose products can include everything from: (1) hosting other technologies, such as computer "apps," (2) powering larger products such as processors that are used in a everything from cars to kitchen appliances, and (3) interconnecting computing elements in a network. It would be unfair to expose the creators of these innovative products to secondary liability for each of the almost limitless supported uses of their products in these larger systems absent a showing that they actually know they are being used to infringe.

There will always be an argument from customer service records, field service reports, extensive "help" functions on websites, and encyclopedic product manuals that the underlying acts of infringement themselves are being "encouraged" specifically by the product-maker. Successful companies in these competitive times are intensely customer-centric. Most companies are loathe to deny that they have encouraged and supported specific functionality or configurations of their multi-purpose products – especially when they do not believe such functionality infringes any third-party rights. Thus, protection for innovators from unbounded secondary liability based on the uses their products are put to by others must come from requiring an "unlawful intent." As explained further below, this requires knowledge that they are encouraging the legal wrong of infringement.

The particular structure of Section 271 confirms that inducement in patent law also requires a

specific intent to encourage legal violations, knowing of the illegality. Section 271(b) authorizes secondary liability only for one who "actively induces *infringement*." 35 U.S.C. § 271(b) (2006) (emphasis supplied). This use of the legal term "infringement" contrasts with Section 271(a). That section, which governs direct infringement, sets forth the underlying acts which constitute infringement (such as selling, offering to sell or importing an invention), and then describes performance of those underlying acts as constituting direct infringement. If Section 271(b) only required the active inducement of the underlying acts which constitute infringement (such as selling, offering to sell or importing an invention), rather than the legal wrong itself, it would parallel the language of Section 271(a). For example, that section could have easily stated that "actively inducing the sale of an invention" is an infringement. In that case, there might be an argument that there is no culpable purpose requirement. By requiring instead the active inducement of the wrong of infringement using the legal conclusion "*infringement*," Section 271(b) makes clear that there must be a culpable purpose to be liable for inducement infringement. Moreover, the statutory requirement of an "*active* inducement" of the legal wrong of "infringement" makes clear that a culpable purpose to foster infringement is required to find a Section 271(b) violation.

Section 271(c) further confirms this conclusion. That section codifies secondary liability relative to products which are specially adapted for infringement. Even though such products have no

other use than infringement, the product maker is only secondarily liable if it is proven that he "knew that the combination for which his component was especially designed was both patented and infringing." *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964). It would defy all logic to require those trafficking in goods that are only useful for infringement to know of such infringement before they are held secondarily liable, but to set a *lower* scienter standard to prove secondary infringement for those who create and distribute goods and services with potentially thousands of substantial non-infringing uses.

SEB may argue that, unlike copyright infringement at issue in *Grokster*, 271(b) is a strict liability statute just like direct infringement under 271(a) because there is no express requirement in the statute for knowledge. However, there can be no dispute that section 217(b) explicitly addresses "actively inducing infringement" and thus the notion of secondary liability. The culpable purpose requirement derives from the nature and character of the liability, and not the state of mind requirement of the underlying offense of direct infringement.

In short, the culpable purpose requirement for inducement infringement reaffirmed in *Grokster* should and does apply with equal force to patent law.

II. THE LOOSE "DELIBERATE INDIFFERENCE" STANDARD CREATED BY THE FEDERAL CIRCUIT REQUIRED ONLY NEGLIGENCE AND IS INCONSISTENT WITH GROKSTER

The Federal Circuit panel opinion below announced a new standard for the culpable state of mind requirement, borrowing the "deliberate indifference" test applied in this Court's Eighth Amendment case law. This "deliberate indifference" test is problematic, particularly as set forth below, because it is inconsistent with this Court's authority. Specifically, it fails to meet this Court's secondary liability standards.

Although the panel below appeared to acknowledge this Court's culpable purpose requirement, it instead described a recklessness standard that it ultimately applied as though the standard were negligence, as explained further below. If allowed to stand, this mode of analysis would not only create more confusion about the proper level of culpability required, it would improperly tilt the balance struck by this Court necessary to protect free commerce, market competition, and technological innovation.

Consistent with *Grokster*, the panel correctly acknowledged that inducement requires a showing of a "specific intent to encourage another's infringement.'" *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360, 1376 (Fed. Cir. 2010). Nevertheless, it appeared to lower the standard to attempt to capture disregard, rather than true culpable purpose: '"specific intent' in the civil con-

text is not so narrow as to allow an accused wrongdoer to actively disregard a known risk that an element of the offense exists." *Id.*

In attempting to create a "disregard" standard, the Federal Circuit panel borrowed the "deliberate indifference" standard from *Farmer v. Brennan*, 511 U.S. 825, 834 (1994) relating to the Eight Amendment. However, the panel did not apply the "deliberate indifference" test as set forth in *Farmer* and its progeny. As explained in *Farmer*, "deliberate indifference" is a recklessness standard requiring "deliberate indifference to a *substantial* risk of *serious* harm." *Id* at 836. (emphases supplied). As this Court noted in *Farmer*, in civil cases recklessness requires at a minimum that the failure to act occurred "in the face of an *unjustifiably high* risk of harm." *Id.* (emphasis supplied). Yet, the Federal Circuit panel's "deliberate indifference" test merely required a failure to act in the face of a "known risk," without requiring the risk to be "high" or "substantial." As a consequence, the panel set forth what reduces to a negligence test. That is flatly inconsistent with *Grokster's* culpable purpose requirement.

In effect, the panel found a culpable state of mind in the process Pentalpha used to obtain an opinion of counsel. The central critique of Pentalpha's conduct is that it failed to identify for its patent counsel the manufacturers of the fryers used as models by its engineers so it could check specifically if they had relevant patents.

To meet the culpable purpose test, however, one would have to consider why Pentalpha went to

the trouble and expense of obtaining an opinion of counsel from an independent attorney if it were truly acting knowing that it was infringing SEB's patent and without care that it was doing so. But, because the appeal panel applied a negligence standard, the panel never considered this central issue.

Negligence is a manifestly lower standard than the culpable purpose standard applied by this Court in *Grokster*. Likewise, a "deliberate indifference" or other recklessness standard is at odds with this Court's requirement that an induced infringer must have a culpable *purpose* to promote an unlawful object. This Court should vacate the ruling below and remand for the lower courts to apply the culpable purpose test.

III. AT A MINIMUM, TO ACT WITH CULPABLE PURPOSE, AN INDUCEMENT INFRINGER MUST ACTUALLY KNOW OF THE SPECIFIC PATENT AND THAT IT COVERS THE ALLEGEDLY INFRINGING ACTIVITY

To act with culpable purpose, an inducement infringer must, at a minimum, actually know of the specific patent and that it covers the allegedly infringing activity that is the subject of the inducement claim. There simply cannot be culpable purpose without this kind of specific knowledge. This is because with millions of existing United States patents, and hundreds of thousands more issuing each year, patent infringement will always be ar-

gued to be a known risk for successful American businesses.[2]

It is impossible to incorporate virtually any technology into a product without entering a potential minefield of patent conflicts. The existence of what has been described as a patent thicket is well-documented in the literature. *See* Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting*, in Innovation Policy and the Economy 1, 119-150 (Adam B. Jaffe, Josh Lerner & Scott Stern eds., MIT Press 2001); Georg von Graevenitz, Stefan Wagner & Dietmar Harhoff, *How to Measure Patent Thickets - A Novel Approach*, Discussion Paper 2009-9, Munich School of Management (2009).

With global competitiveness increasing all the time, the proliferation of patents as an active tool of commerce is also growing. The existence of aggressive market participants with patents are a fact of the life for most commercial enterprises. In addition, sophisticated players seeking to monetize patents, without producing products, commonly patent specifically to block the technology paths where they expect potential licensing targets will

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[2] As an example, by one count there are at least 200,000 issued software patents. *See* James Bessen & Michael J. Meurer, *Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk* 22 (2008), available in part at http://researchoninnovation.org/dopatentswork/. The growth in such patents has been estimated to be approximately 20,000 more software patents per year. *See* James Bessen & Robert Hunt, *An Empirical Look at Software Patents*, 16 J. Econ. & Mgmt. Strategy 157, 158 (2007).

tread – even if they have no plans to commercialize the patented technology on their own.

In addition to the ubiquity of patents, the nature of modern technology and product development makes the need for a firm knowledge requirement all the more important. For instance, the greater the flexibility and the more powerful the functionality of the product, the more appealing the argument that patent disputes are a known risk to the innovator. Most computer systems can take advantage of thousands of different functions and integrate with countless other products, including many configurations the original source of the product may not have even contemplated (but which they may fully encourage as part of their commitment to product support). Many of these functions will tread in areas in which there are literally thousands of patents. To treat the development and distribution of such products to be a "known risk" sufficient to establish a culpable purpose to infringe a particular patent relating to a particular feature would be to eviscerate the concept of culpable purpose that maintains the balance inherent in this Court's secondary liability authority.

Knowledge of the specific patent and that it covers the allegedly infringing activity that is the subject of the inducement claim is particularly important because of the complexity of a patent analysis. Determining the scope of a patent, how it applies to a product and whether the patent is even valid is a major undertaking. True culpability requires more than knowing that there may be a general risk of a patent assertion. Indeed, true culpa-

bility requires more than mere knowledge of a particular patent without notice of how one's conduct would infringe that patent.

Thus, as a predicate to inducement infringement, one must actually know of the specific patent and that it covers the allegedly infringing activity that is the subject of the inducement claim. The importance of actual knowledge is long-established in law, just as it is rooted in logic.

As noted above, in *Aro* this Court made clear that even for those involved with products with no substantial use other than infringement, secondary liability would only attach if there were actual knowledge of the infringement. No lesser rule should apply to commerce in goods and services with beneficial and substantial non-infringing uses.

Long before *Aro*, in *Cortelyou v. Charles Eneu Johnson & Co.*, 207 U.S. 196, 200 (1907), a patent infringement case, this Court affirmed a finding of no inducement infringement because there was not even *notice* to the defendant of the patent-in-suit or its relationship to the staple goods (ink) it was selling. Specifically there was no evidence that the defendant was "notified by the plaintiffs of the rights which they claimed, or that anything which it did was considered by them an infringement upon those rights." *Id.* These long-standing teachings were codified as Section 271(b) when the Patent Act was passed in 1952.

Indeed, prior to the panel opinion below, the Federal Circuit itself had recognized *en banc* that to establish someone is an inducement infringer

there is a "requirement that he or she knew of the patent." *DSU*, 471 F.3d at 1304.

The minimum requirement that one must know of the specific patent and that it covers the allegedly infringing activity that is the subject of the inducement claim is grounded in the law and an important safeguard to maintain balance in the patent system.[3] Simply put, it would not be reasonable or fair to hold someone liable for the direct patent infringement by another if that someone did not even know of the specific patent.

IV. THE DELIBERATE INDIFFERENCE STANDARD WOULD SIPHON RESOURCES FROM PRODUCTIVE USES TO LITIGATION BUDGETS

The culpable purpose test is fair and procompetitive because it ensures that only those with unlawful intent are exposed to secondary liability for the wrongful activity of others under Section 271(b). The watered down "deliberate indifference" test applied below, to the contrary, would detract from innovation in favor of litigation.

With the proliferation of patents and growth of a patent monetization industry, responsible companies come into contact with a dizzying num-

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[3] Of course, willful blindness to a fact is itself knowledge of the fact. *See United States v. Santos*, 553 U.S. 507, 521 (2008). We do not suggest one can intentionally blind itself to a fact to insulate itself from liability. However, in this context the fact must be of a specific patent and that it covers the infringing activity that is the subject of the inducement claim– not so-called blindness to the existence of patents more generally.

ber of patents. In the course of prosecuting a patent application, for example, a companies' legal team can have dozens of patents brought to its attention in some sense. Licensing negotiations, literature reviews, and conference attendance can introduce employees of a company to countless additional patents on a routine basis.

If exposure to patents in or out of competitive contexts could be argued to alone create an obligation for responsible companies to perform a patent analysis to conclude that there is no infringement of a valid patent, the only beneficiaries would be patent attorneys. The cost of a patent opinion – especially one that would have a chance to stand up to litigation second-guessing – can cost more than $100,000. If you multiply that times the number of patents in which the company might come into contact, rather those that present a true issue, the cost becomes staggering. Envision now a comprehensive patent search covering all aspects of how a product functionality *might be used by others*, where there is arguably a "known risk" that a patent conflict may exist, and the legal costs could easily reach into the millions. In real world terms, the budget for such expanded lawyer activity would compete with budgets for research and development.

Exacerbating this problem further is the frequency with which products are updated, upgraded, expanded, extended, and otherwise improved. This constant evolution of modern products multiplies the frequency of the patent evaluations that would need to take place under the Federal Circuit's "deliberate indifference" standard.

Even where the substantial expense of a patent analysis is incurred, if there is valid debate about whether there is infringement, an opinion of counsel becomes a litigation target where every arguable flaw can be used to suggest negligence. Whether it is a failure to anticipate the latest shifts in patent law, a missed patent in an otherwise thorough search, or alleged bias of the authoring attorney, the satellite litigation over the adequacy of such analyses has real cost. Under a negligence standard, discovery battles and privilege fights are sure to consume disproportionate resources. Likewise, such a rule would spur satellite disputes about what a company, in hindsight, should have known, and should have done, which can distract from a focus on the merits of a patent infringement claim itself.

With the culpable purpose rule, patent holders have an incentive to present those they would like to pursue for secondary liability with clear notice of their patent rights and why they believe their patents are infringed. If that happens, responsible companies can efficiently focus their attorney resources on these patent assertions.

On the other hand, those seeking to monetize patents will be given additional motivation to bring lists of patents to the attention of potential litigation targets if there were to be no culpable purpose requirement. Such notices, depending on how the law develops, could impose huge additional costs on companies to help extract cost-of-patent-attorney settlements. Indeed, companies might face a choice of occupying a stable of patent attorneys to attempt to protect the company from secondary liability for

the acts of others or to settle to avoid a wasteful use of much needed resources.

In sum, under the culpable purpose standard, commercial actors can focus their resources to ensure that they do not in fact encourage others to infringe patents where they know of the patent and that it covers the allegedly infringing activity that is the subject of the inducement claim. A negligence standard, on the other hand, would needlessly expand the expensive practice of obtaining opinions of counsel, invite potential gamesmanship and encourage "gotcha" litigation.

CONCLUSION

For all these reasons, the decision of the Federal Circuit panel should be reversed.

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